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Uganda: Selected Issues and Statistical Appendix

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UGANDA

Selected Issues and Statistical Appendix

Prepared by Jan Mikkelsen and Shanaka Jay Peiris

Approved by the African Department

January 28, 2005

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INTRODUCTION

The selected issues paper include the following chapters:

- Chapter I analyses the underlying sources of growth in Uganda, which suggests that the contribution to growth from total factor productivity has been minor, while the high population growth poses a significant challenge to sustain a rapid improvement in living standards. This highlights the importance of implementing policies aimed at raising productivity and addressing population growth issues.
- Chapter II takes a closer look at the monetary transmission mechanisms in Uganda, aimed at assessing the appropriate choice of intermediate target and mix of liquidity sterilization instruments. The results support a continuation of the monetary targeting framework, and a judicious mix of net treasury bill issuance and foreign exchange sales for sterilization purposes, in order to enhance private sector growth prospects.
- Chapter III focuses on the recent financial sector reforms undertaken by the government. It notes the remarkable progress made in establishing the basis for a sound and profitable financial system through a strengthened supervisory and regulatory regime, and consolidation and privatization within the banking sector. Challenges remain, however, to foster a more efficient and deeper financial system.

I. SOURCES OF GROWTH AND SUSTAINABILITY¹

A. Introduction

1. Since the National Resistance Movement, under the leadership of President Museveni, assumed control of the government in 1986, the Ugandan economy has undergone an impressive post-conflict recovery. After more than a decade of erratic and negative growth, annual real GDP growth averaged a 6.2 percent between 1986/87 and 2003/04, with real investment rising by 6-7 percentage points of GDP (Appendix Table 1 and Figure 1). Largely as a result of strong economic growth, the incidence of poverty in Uganda was reduced from 56 percent of the population in 1992 to 34-38 percent in 2000-03. Notwithstanding, Uganda's rapid population growth, real GDP per capita has almost doubled since the mid-1980s, and is now about 15 percent above the level in 1970, the year before the military coup (Figure 2).²

2. This chapter reviews the Ugandan economic recovery and assesses its sustainability through an analysis of the sources of long-term growth. The following section briefly reviews the key developments of the Ugandan recovery. In Section C, the neoclassical model of the

¹ Prepared by Jan Mikkelsen.

² During the 1970s, real GDP per capita dropped by about 35 percent.

sources of growth is discussed, emphasizing the importance of productivity growth for sustainability, and the model is estimated for Uganda. Finally, Section D discusses the prospects and policies for promoting growth and productivity.

B. The Ugandan Recovery³

3. Initially, the steady improvement in security in most of the country provided the impetus for a greater work effort and better land utilization. Although investment remained low, it had picked up substantially since the end of civil strife. The second phase of the recovery (1992/93–1995/96) was marked by strong macroeconomic stabilization, liberalization of key markets and sectors—including the foreign exchange market and the coffee and banking sectors—and a fortuitous boom in world coffee prices. The return of many members of the Asian community and other Ugandans, who had fled the country during previous regimes, also contributed to the high growth rates during this period, with much needed human capital, entrepreneurship, and physical investment.

4. The period since the mid-1990s was characterized by a greater focus on poverty reduction programs and increased donor assistance. Under the Ugandan Poverty Eradication Action Plan (PEAP), initially published in 1997 and revised in 2000 and 2004, donor inflows, net of debt-service payments, increased by 5 percentage points of GDP, reaching about 12 percent of GDP in 2003/04; flows of direct budget support rose from about 1 percent of GDP to nearly 6 percent of GDP. At the same time, government spending increased by nearly 8 percentage points of GDP to about 23 percent of GDP. The PEAP was complemented by further structural adjustment, including the privatization and restructuring of key industries (telecommunications and electricity), tax reform, and the liberalization of international capital account transactions, and a strengthening of the banking system through stepped-up supervision. However, during this period, until 2001/02, Uganda's terms of trade deteriorated substantially, as world coffee prices fell by over 70 percent, causing a sharp decline in export earnings. Since then, the terms of trade have partially recovered, reflecting a reversal in coffee prices.

5. The structure of the economy has gradually changed since the mid-1980s, with the industrial and service sectors accounting for a growing share of GDP at the expense of the agriculture sector, whose share in GDP declined from about 55 percent to just below 40 percent in 2002/03. In contrast, the share of industry and services increased from about 12 and 33 percent to nearly 20 and 42 percent, respectively (Appendix Table 1). The relatively strong growth in the service sector is striking, and, despite some expansion in commerce, tourism-related services, and telecommunications, can be attributed primarily to a surge in the provision of public services, particularly health and education. As a result, the services sector contributed more than any other sector to the economic recovery (Figure 3). On average during 1985/85–2002/03, the services sector contributed to the growth in GDP by

³ This section partly draws on an internal note “Economic Growth in Uganda: A Summary of the Post-Conflict Experience and Future Prospect” prepared by David Dunn, African Department.

2.8 percent a year, while agriculture and industry contributed by only 1.8 and 1.4 percent, respectively. Notwithstanding the structural changes, the economy is still largely based on agriculture, and a significant share of manufacturing enterprises process agriculture products. The growth in agricultural output during the previous 15 years was primarily due to an expansion of the amount of land under cultivation, while productivity gains were limited.

6. In recent years, growth has slowed, particularly in per capita terms (Appendix Table 1). With annual per capita growth rates falling below 2 percent, concerns are being raised about the sustainability of the needed high economic growth to further reduce poverty. In the following section, the sustainability of growth is assessed by analyzing the underlying sources of growth during the Ugandan economic recovery.

C. Productivity and Sources of Growth

The model

7. Productivity gains during economic recovery play an important role for sustainability and future growth prospects. Their importance can be demonstrated in a simple neoclassical growth model in which long-term output growth is broken into two parts: one that can be explained by the growth in inputs (labor, capital, etc.), and one that can be explained by improvements in the efficiency with which these inputs are used. The latter part is normally referred to as total factor productivity (TFP) growth. The production process is represented by the following constant-returns-to-scale production function with two factor inputs for period t :

$$(1) \quad q_t = \alpha_0 + \alpha_1 k_t + (1 - \alpha_1) l_t + \alpha_2 t + e_t$$

$$(2) \quad K_t = (1 - \delta) K_{t-1} + I_t$$

where

q_t is real output in logs;

k_t is real capital stock in logs (equal to $\log K_t$);

l_t is employment in logs;

i_t is real gross investments in logs (equal to $\log I_t$); and

e_t is a residual term.

8. The production function (1) includes a trend term, t , which represents long-term productivity gains, with the coefficients α_1 , representing the marginal product of capital, and α_2 , representing long-term TFP growth. The capital stock is determined by (2), with a constant rate of depreciation, δ . This model captures economic growth in the long term, with the residual term reflecting short-term effects, including normal business cycles and variations in capacity utilization. Consequently, in contrast to the traditional growth

accounting exercise, TFP is here treated as a long-term concept.⁴ Clearly, robust estimates of TFP growth should be based on information for a sufficiently long period of time, because TFP reflects inherent advancements of knowledge about the production process, as well as reallocation of resources from low-productivity sectors (such as agriculture) to high-productivity sectors (such as manufacturing). These are processes that gradually unfold over a longer period of time. By estimating the coefficients of (1) and (2), three sources of output growth can be identified: (i) growth in the two factors, capital and labor; (ii) TFP growth; and (iii) short-term factors fluctuating around long-term output.

9. For growth to be sustainable, the capital-output ratio must be either declining or constant in the long term, since an increasing ratio would imply, sooner or later, that the net investments required to maintain sufficient capital growth would exhaust all income. In fact, the highest sustainable growth rate will be obtained at the rate that keeps the capital-output ratio constant; that is, where long-term output growth, g_q , equals long-term capital growth, g_k . By differentiating (1) with respect to t and using this requirement, we obtain a formulation of maximum sustainable growth:

$$(3) \quad g_q = g_l + \frac{\alpha_2}{1 - \alpha_1}$$

where g_l is long-term growth of employment (or labor supply). For example, assuming $\alpha_1 = 0.5$, annual TFP growth of 1 percent, and employment growth of 2 percent, the sustainable growth would be 4 percent. Equation (3) illustrates the importance of TFP for determining sustainable long-term growth. Using the example, if TFP growth increased by 1 percentage point, sustainable growth would increase by 2 percentage points (assuming the appropriate level of investment), while if employment growth is increased by 1 percentage point, sustainable growth would rise by only 1 percentage point. The main point is that a country's technology, including TFP, determines its long-term growth potential. Essentially, the importance of TFP growth is explained by the neoclassical growth model's assumption of diminishing returns to capital (see equation (1)), which implies that capital accumulation cannot sustain long-term growth while TFP can.⁵ Another implication of this finding is that a

⁴ Most other studies of the sources of growth estimate TFP by the residual of output not explained by changes in factor inputs. Thereby, typically very large short-term output fluctuations, which are caused by a host of other circumstances, are attributed to changes in TFP. Amor Tahari, Dhaneshwar Ghura, Bernardin Akitoby, and Emmanuel Brou Aka, 2004, "Sources of Growth in Sub-Saharan Africa," IMF Working Paper, WP/04/176 provides a good overview of past studies and provides estimates of TFP growth for countries in Sub-Saharan Africa. Another recent study, Bernardin Akitoby and Matthias Cinyabuguma, 2004, "Sources of Growth in the Democratic Republic of the Congo: A Cointegrating Approach," IMF Working Paper 04/114, includes some long-term analysis in addition to the traditional growth accounting exercise.

⁵ Similar arguments were used by Krugman, P., 1994, "The Myth of Asia's Miracle," *Foreign Affairs*, 73(6) and Young, A., 1994, "Tyranny of Numbers: Confronting the Statistical Realities of East Asian Growth Experience," *Quarterly Journal of Economics*, 110(3) in the debate of the sources of growth during the "Asian Miracle."

country may risk **overinvesting**, particularly if TFP is very low, implying an increasing capital-output ratio over a longer period of time. Although this overinvestment would certainly generate high growth rates for some time, the process eventually collapses in either a financial crisis, a depression, or both.

10. Finally, TFP growth is crucial for output per capita growth. According (3), positive growth in output per capita could not be sustained, unless TFP growth is positive. Higher TFP growth allows for higher levels of sustainable investments, which in turn generates higher long-term growth in output per capita exceeding the initial increase in TFP growth.⁶

Estimation

11. The estimation of equations (1) and (2) poses a few problems. First, the initial capital stock is unknown, and the capital stock itself is a function of the rate of depreciation, which is unknown as well. Second, the estimation must be carried out over a sufficiently long period to identify the long-term coefficients. To solve these problems, the initial capital stock and the coefficients of the model are estimated through “optimization” of the long-term relationship over the period 1960-2003.⁷ To accommodate structural factors, the coefficient for TFP growth is estimated separately for the crisis years 1971-85. Finally, with limited availability of labor market data, employment is approximated by total population.

Table 1. Estimation of Long-Term Production Function

Dependent variable: q_t

	Coefficients	Standard Deviation	T-value
Capital, k_t	0.68	0.026	25.5
Employment, l_t	0.32	...	...
Trend (1960-70 and 1986-03)	0.0013	0.00045	2.9
Trend (1971-85)	0.0051	0.00101	5.1
Constant	-0.20	0.037	-5.3
Rate of depreciation	0.152	...	...
R-squared	0.993	...	...
Cointegration test ⁸	3.91	...	...

⁶ For example, an increase in TFP growth from zero to 1 percent per year would increase sustainable long-term output growth by 2 percentage points (for $\alpha_t=0.5$)

⁷ The estimation of all the parameters in equation (1)-(2) is based on the hypothesis that the two equations represent the true long-term relationship. On this basis, by testing for the existence of a cointegrating vector in the production function (1) for all relevant combinations of the initial capital and the rate of depreciation, the parameter estimates are obtained for the combination that optimizes the test statistic. Data are obtained from the World Bank’s World Tables (1960-82) and the Ugandan Bureau of Statistics (1983-2003).

⁸ This test is based on the two-step procedure from Robert Engle and C. W. J. Granger, 1987, “Cointegration and Error-Correction: Representation, Estimation, and Testing,” *Econometrica* 55. The test value is significant at a 5 percent significance level.

12. The estimation results are summarized in Table 1. The output elasticity with respect to capital and employment are estimated to be 0.68 and 0.32, respectively.⁹ The estimates of TFP growth are very small, though still statistical significant, contributing only 0.13 percent to annual growth in the recovery years.¹⁰ The average rate of depreciation for the whole period is estimated at about 15 percent, somewhat higher than the 5-10 percent traditionally used in other studies.¹¹ Finally, the test for cointegration indicates that the estimated equation is accepted as a valid long-term relationship.

13. The estimated coefficients allow for output growth to be disaggregated into its main sources (Table 2). For the full period (1961-2003), average annual GDP grew by 3.9 percent, of which, the growth of capital and labor input explained 2.5 and 1 percent, respectively, while the contribution from TFP growth was only 0.3 percent. As expected, the short-term effects were virtually zero. For the economic recovery years, 1986-2003, during which annual growth averaged 6.4 percent, the accumulation of capital explained about 85 percent of the increase in output.

Table 2. Sources of Growth
(Average annual growth rates in percent)

	Total GDP	Sources			
		Capital	Labor	TFP	Short-term factors
1961-2003	3.9	2.5	1.0	0.3	0.1
1961-71	5.2	2.7	1.3	0.1	1.1
1972-85	-0.4	-1.4	0.8	0.5	-0.4
1986-2003	6.4	5.5	1.0	0.1	-0.2

14. The characteristics of Uganda's growth since the mid-1980s raise two major concerns. First, the strong reliance on capital accumulation and near absence of TFP growth raise doubts about the sustainability of growth. The accumulation of capital was supported by

⁹ Note that these elasticities assume the exclusion of human capital in the production equation. However, with the increased investments in education, particularly since the mid-1990s, the contribution from human capital accumulation is expected to have been significant. Also, the approximation of employment by total population could bias the coefficient estimates.

¹⁰ Interestingly, TFP growth is estimated to be slightly higher during the crisis years, at about 0.5 percent annually. This basically reflects that the decline in the capital stock during the crisis years (the estimates in Table 1 imply that the real capital stock fell by close to 30 percent) should have caused an even larger drop in output than actually observed. Given the poor data quality, especially during this period, this could also be an indication of an overstatement of either real GDP growth, or the decline in investments.

¹¹ Note that the rate of depreciation is estimated on the basis of the actual outcome and that sense reflects the "true" economic rate, which may be different from the rate of depreciation normally determined for accounting purposes.

healthy national saving rates of 12-14 percent of GDP in the 1990s; these rates reflect, in turn, substantial inflows of external transfers, amounting to 5-10 percent of GDP (Figure 4), and an increase in external savings. Without a significant contribution from TFP growth, more investment will increasingly be required to sustain GDP growth rates of 6-7 percent, which, in turn, would require even higher national or external saving. The importance of TFP growth in Uganda can be illustrated using the estimated coefficients in Table 1. From equation (3), they imply sustainable growth of about 3.5 percent, whereas an increase in TFP growth by only 1 percentage point raises sustainable growth to nearly 6.5 percent.¹²

15. Second, the combination of low TFP growth and high population growth substantially constrain an increase in output per capita. To illustrate this, the estimated relation may be re-written as relationship between growth in output per capita and the capital-labor ratio (in percent):

$$(4) \quad (\dot{Q}/L) = 0.68(\dot{K}/L) + 0.1$$

Clearly, with an annual population growth of 3.2 percent (average for 1986-2003) and virtually zero TFP growth, the stock of capital would need to grow by a similar rate to prevent output per capita from declining. Also, with a fairly low marginal product of labor (about one-third), a failure to increase capital sufficiently would have devastating negative effects on output per capita.

16. The short-term deviations around the estimated long-term output fluctuate considerably over the estimation period. In Figure 5, actual and fitted output according to equations (1) and (2) are shown together with short-term deviations, which are represented by the residual, e_t (in logs). These short-term deviations reflect, among other things, the normal business cycle and changes in capacity utilization. In recent years, the short-term deviations have been minor, indicating that growth has been close to the expected long-term potential as determined by the factor inputs and TFP. In other words, there is no indication of major changes in the estimated parameters, including TFP growth, during this period.

Table 3. Estimation of Short-Term Production Function

Dependent variable: Δq_t			
	Coefficients	Standard Deviation	T-value
Lagged deviation from long-term output, e_{t-1}	-0.40	0.007	-2.0
Log changes in credit to private sector/GDP	0.12	0.035	3.5
Log changes in the terms of trade	0.03	0.026	1.0
Lagged out put growth, Δq_{t-1}	0.62	0.130	4.9
Constant	0.02	0.007	2.6
R-squared	0.59	...	...
Durbin-Watson autocorrelation test	2.04	...	...

¹² Assumes 3.2 percent population growth, i.e., TFP growth of 1 percent translates into 3.3 percent growth per capita.

17. A parsimonious representation of the corresponding short-term model—in which output growth is explained by lagged output deviations from its long-term trend, changes in banking sector credit to the private sector relative to GDP, and changes in the terms of trade—is presented in Table 3. As expected, negative (positive) short-term output deviations from its long-term trend tend to influence output growth positively (negatively) in the following year. The adjustment factor (or the so-called error-correction term) is estimated to about 0.4. Moreover, changes in credit to the private sector are strongly and positively related to output growth, indicating the importance of financial intermediation for output growth.¹³ The terms of trade is positively related to output as well, but with less significance. The well-behaved short-term model further supports the estimated long-term relationship in Table 1.

Experiences at the micro level

18. The estimates above are based on aggregated variables. This provides advantages in terms of comprehensiveness, but there are of course disadvantages as well. Particularly, a sectoral disaggregation of the analysis could offer further insight into the reasons for low productivity growth and, possibly, identify more recent sectoral changes in the production process. In Uganda, the implementation of market-based reforms since the early 1990s could have started a process whereby new and more profitable enterprises and farmers emerge and slowly take over from former producers. Initially, this process would not necessarily show up in the aggregated figures because the outcompeted producers are performing even worse until they disappear.

19. However, recent studies at the micro level generally confirm that productivity gains across sectors have been very low over the past decade in Uganda. The conditions are particularly worrisome in agriculture, where land degradation, especially soil erosion and soil fertility mining, is widespread, contributing to low or declining productivity.¹⁴ Surveys show that most farmers' yields of several major crops (including maize, matooke, beans, sorghum, millet, coffee) have declined since the early 1990s.¹⁵ Only cotton yields seem to have increased significantly. Also, farmers have successfully increased the production of livestock. One important explanation for land degradation in Uganda is the very small proportion of farmers using fertilizers. For example, the use of NPK fertilizer is very low by

¹³ Beck, Thorsten *et al.*, 2000, "Finance and the Sources of Growth," *Journal of Financial Economics*, Vol. 58, on the basis of an extensive cross-country study, provide similar evidence of the importance of financial intermediation for output growth.

¹⁴ International Food Policy Research Institute, 2004, "Strategies for Sustainable Land Management and Poverty Reduction in Uganda," Research report 133.

¹⁵ Klaus Deininger and John Okidi, 2001, "Rural households: Incomes, Productivity, and Nonfarm Enterprises," in Paul Collier and Ritva Reinikka, "Uganda's Recovery: The Role of Farms, Firms, and Government," the World Bank.

international standards and compared with its use in Uganda in the early 1970s.¹⁶ About 95 percent of the total use of fertilizer is used by a few large-scale farmers (including on the tea and sugar estates).

20. For manufacturing firms, a recent investment climate survey finds evidence of very low labor productivity in Uganda.¹⁷ On average, value-added per worker in Uganda is less than half that in other countries in the region. Moreover, capital intensity, measured by the capital-labor ratio, is very small as well, partly as a result of capital deterioration during the conflict years. At the same time, the so-called average technical efficiency is estimated at only 0.5, indicating that on average firms are only half as efficient in their use of its inputs as the most efficient firm. Normally, competitive and unsegmented markets would have technical efficiency rates above 75 percent. This confirms that the disparity in productivity of Uganda's manufacturing firms is fairly high and suggests that there is scope for improvement, under the right circumstances, among the low productivity firms. Further studies of the manufacturing sector should help establishing whether this growth potential is unutilized.

D. Prospects and Policies for Growth

21. As demonstrated above, Uganda's low TFP growth threatens its achievement of sustainable high growth and poverty reduction. To address this problem, the authorities need to implement measures to improve TFP growth. The urgent need for action is further reinforced by the fact that sustained productivity gains typically require structural changes that take time to be effective. More broadly, policies should further strengthen the private sector-led growth through improvements in the business climate and implementing appropriate fiscal policies to ensure that sufficient private sector resources are made available on market terms. Under the right circumstances, the productivity gains should come from two sources: (i) new productive investments in all sectors of the economy; and (ii) a shift from low- to high-productivity activities. The shift in activities would not necessarily involve higher investments, but certain activities would be scaled down or disappear. Although the private sector should bear the main burden for increasing productivity, the public sector, helped by external donors, should provide services, notably good education and health systems and infrastructure, as well as ensure the provisions for adequate energy supply.

22. More specifically, the following policies are key to raising productivity in Uganda:

- **Gradual fiscal consolidation**, primarily through higher revenue collection, should over the medium term provide more room for the private sector to expand. A fiscal consolidation will not only free up more financial resources for the private sector, but

¹⁶ For comparison, Kenya used about 25 times more NPK fertilizer than Uganda in 2001.

¹⁷ World Bank, 2004, "Investment Climate Assessment: Uganda."

it will also help reducing interest rates and dampen real appreciation pressure.¹⁸ More generally, in low-income countries with high fiscal deficits, there is strong evidence of “expansionary fiscal contractions.”¹⁹ The transmission from fiscal consolidation to higher growth goes through higher private sector investments and higher aggregate factor productivity related to improved overall public sector governance.

- **Increasing spending on infrastructure.** A range of infrastructural shortcomings adversely affect the business climate, especially the lack of sufficient capacity in the electricity sector and Uganda’s poor roads and railways. With electricity demand already above capacity under normal weather conditions, the system is vulnerable to even small variations in weather, creating major frustrations for private enterprises. Public investment in these areas could significantly increase private sector productivity. Public expenditure will need to be focused on capital accumulation rather than on recurrent spending, which has absorbed the total increase in public spending in recent years. However, the authorities should also make an effort to ensure that some of these investments, particularly in the electricity sector, are made by private investors to promote efficiency and lessen the burden on the budget.
- **Developing the financial sector.** With higher domestic resources available, the ability of banks and other financial institutions to channel the savings into good, productive investments is key. The banking system has already undergone restructuring, but banks need more time to take full advantage of the new potential to expand their involvement in the growth process. Agriculture, in particular, lacks good financing options. As agriculture improves, the potential for linkages to agro-processing should be explored as well. The financial sector is playing a dual role as a provider of resources to ensure better use of existing capacity (most short-term lending) and as a provider of resources to finance new productive investments (longer-term lending). The banks need to improve particularly the latter role.
- **Improving the business climate and reducing corruption.** Private firms have typically expressed dissatisfaction in their dealings with the Ugandan Revenue Authority (URA), including customs, and other public sector agencies. To support more private sector initiatives, the authorities need streamline the bureaucracy and fight corruption more forcefully.

¹⁸ The large net donor inflow is causing a steady exchange rate appreciation pressure, which could be reduced through fiscal consolidation. While export-oriented firms operating close to break-even may suffer, investment-heavy activities, particular those producing for the domestic market, would benefit from the appreciation.

¹⁹ For an overview of the relationship between fiscal policy and growth in low-income countries, see Chapters 2 and 4 in Sanjeev Gupta *et al.* (eds.), 2004, “Helping Countries Develop: The Role of Fiscal Policy,” International Monetary Fund.

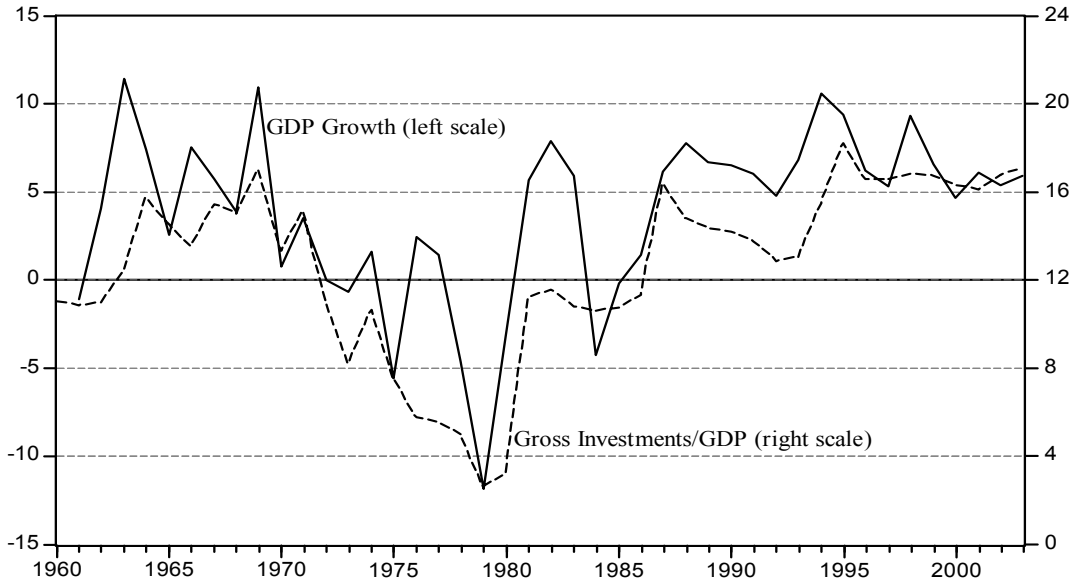
- **Improving education and training.** While Uganda has made good progress in improving its education system in recent years, more investment is needed. For example, the surveys at the micro level cited above conclude that private managers and farmers with better education are generally more productive. The introduction of an agricultural curriculum in primary and secondary education, as proposed in the Plan for the Modernization of Agriculture (PMA), seems to be a step in the right direction. Also, agricultural training and extension programs appear to be contributing to higher productivity.

23. The government is formulating policies to support economic growth in its revised PEAP. While the PEAP addresses most of the elements mentioned above, at least in general terms, there is a need to focus on concrete policies to increase productivity that can be implemented immediately or in the near future. It should focus on education and agriculture, and on dealing with the power shortages. The government's recent commitment to restructure the URA should at the same time strengthen revenue collection—thereby contributing to the needed fiscal consolidation—and improve public sector governance.

E. Concluding Remarks

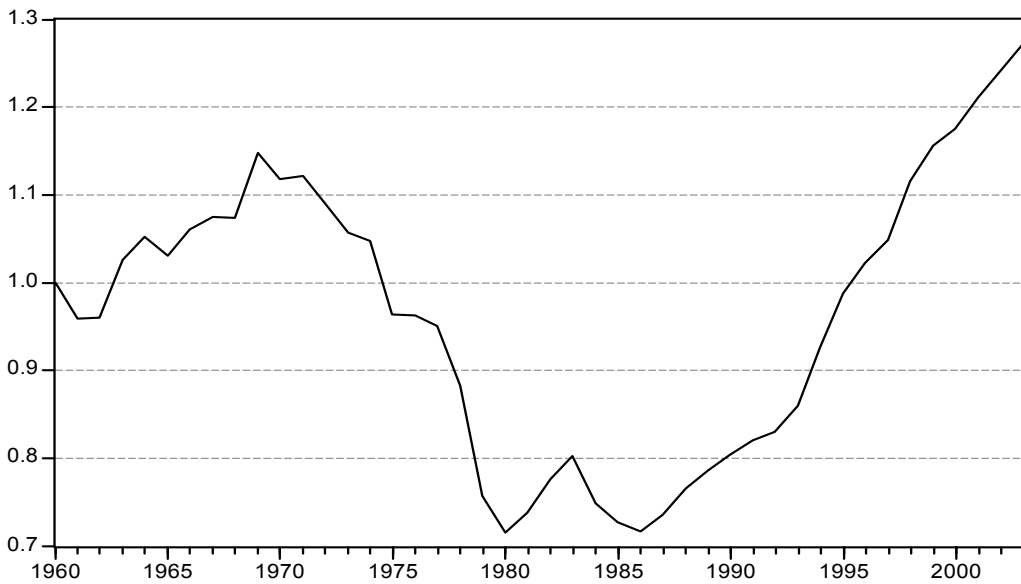
24. Since the end of its prolonged civil strife, Uganda has enjoyed a sustained period of strong, broad-based economic growth, owing to the restoration of security, macroeconomic stabilization, and fundamental liberalization policies. This growth experience, combined with the implementation of a comprehensive poverty reduction plan, allowed for an impressive reduction in poverty. However, high economic growth in the future will rely heavily on increasing productivity while gradually increasing investments. In turn, this will require a need to implement a structural adjustment agenda that addresses investors' concerns, including fighting corruption, lowering transportation costs, increasing the electricity supply, and increasing the availability of financing through sound financial sector policies.

Figure 1. Uganda: Real GDP Growth and Investments
In percent, 1960-2003



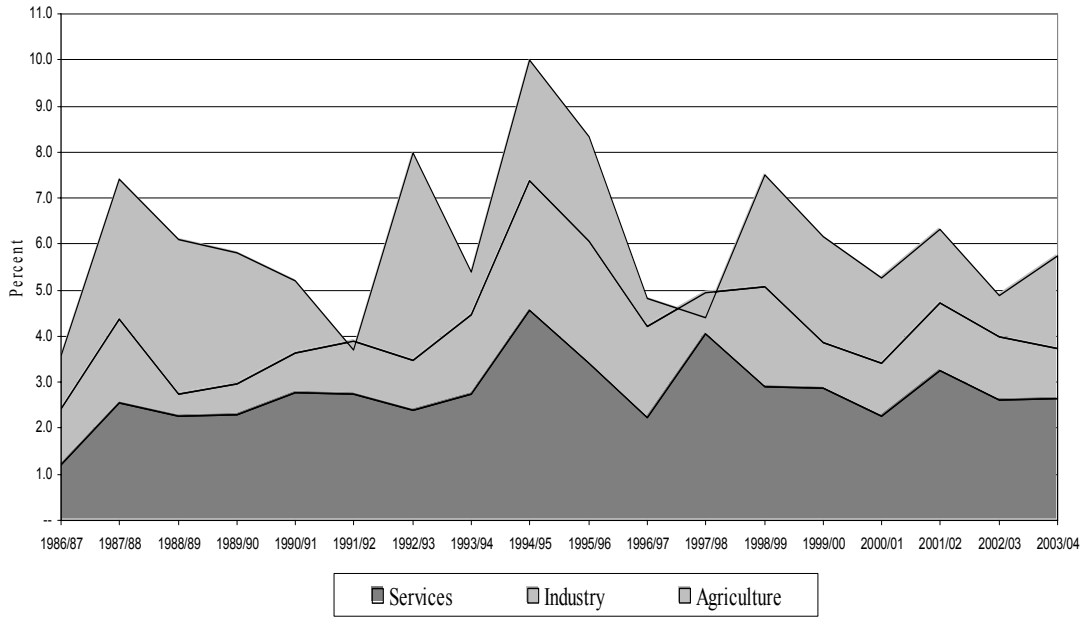
Sources: World Tables, World Bank; and Uganda Bureau of Statistics.

Figure 2. Uganda: GDP per Capita (1960-2003)
Index 1960=1



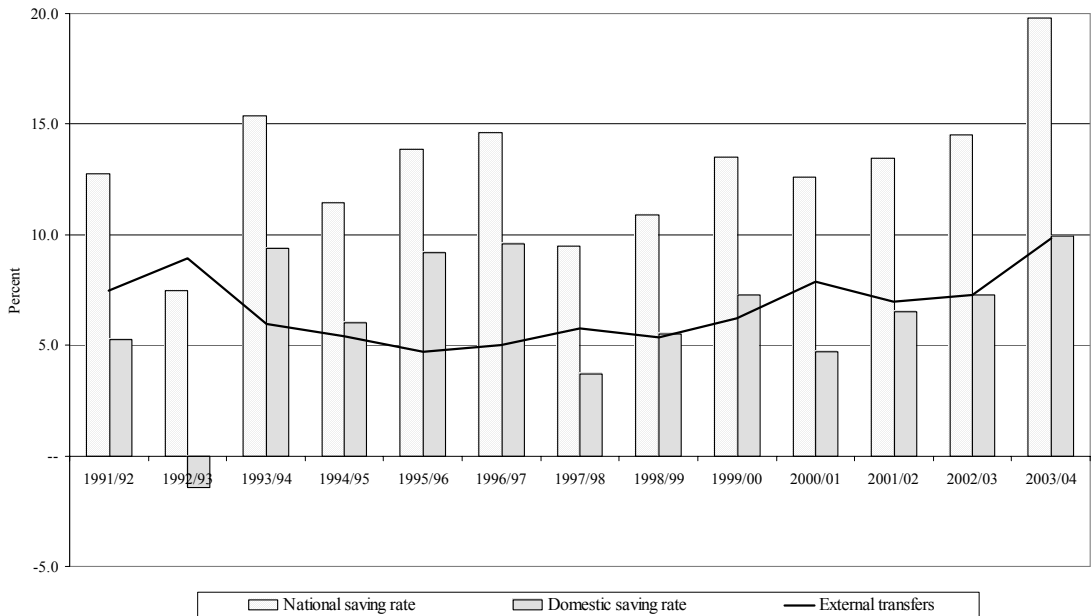
Sources: World Tables, World Bank; and Uganda Bureau of Statistics.

Figure 3. Uganda: Contribution to Real GDP Growth (Factor Cost)
1986/87-2003/04



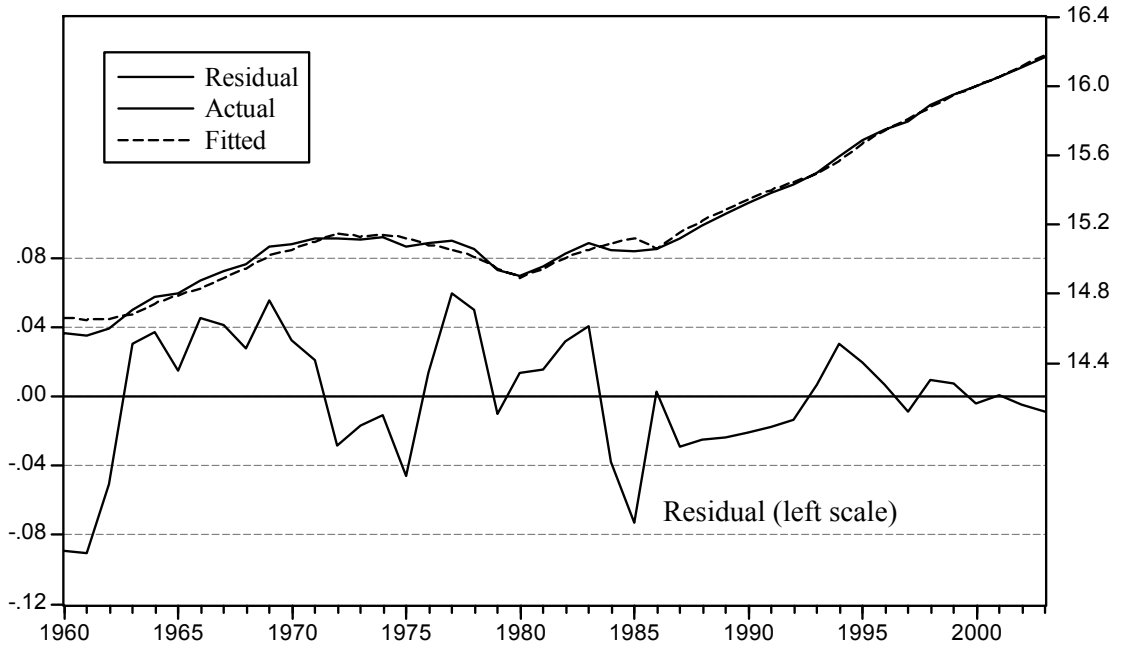
Sources: Uganda Bureau of Statistics; and Fund staff estimates.

Figure 4. Uganda: National and Domestic Saving (in Percent of GDP)
(1991/92-2003/04)



Sources: Uganda Bureau of Statistics; and Fund staff estimates.

Figure 5. Uganda: Actual and Fitted Values of GDP (1960-2003)



Sources: Uganda Bureau of Statistics; and Fund staff estimates.

Table 1. Uganda: Real GDP at Factor Cost (1985/86-2003/04)

	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Avr. 1986/87- 2003/04	Avr. 1986/87- 1991/92	Avr. 1992/93- 1995/96	Avr. 1996/97- 2003/04
I. Growth in percent																						
Total GDP	3.6	7.4	6.1	5.8	5.2	3.7	8.0	5.4	10.0	8.3	4.8	4.4	7.5	6.2	5.3	6.3	4.9	5.8	6.2	5.6	7.9	5.8
Agriculture	2.0	5.5	6.2	5.2	2.9	-0.4	8.9	1.8	5.3	4.8	1.4	-1.2	5.8	5.6	4.6	3.9	2.3	5.2	4.0	3.9	3.9	3.7
Industry	11.1	15.3	3.9	5.3	7.1	9.1	8.0	13.0	19.6	17.2	11.7	5.1	12.0	5.3	6.2	7.9	7.2	5.6	9.3	8.1	16.6	7.0
Service	3.7	7.7	6.8	6.9	8.2	8.0	6.7	7.8	12.6	9.2	6.0	10.7	7.2	7.2	5.6	8.0	6.3	6.3	7.7	7.5	9.8	7.3
II. Value (Billions in 1991 prices)																						
Total GDP	3,552	3,815	4,049	4,284	4,507	4,675	5,048	5,320	5,851	6,340	6,647	6,940	7,461	7,921	8,339	8,867	9,301	9,836	6,264	4,041	5,640	8,164
Agriculture	1,960	2,068	2,196	2,311	2,378	2,369	2,580	2,625	2,764	2,897	2,937	2,902	3,070	3,242	3,390	3,523	3,603	3,791	2,812	2,183	2,717	3,307
Industry	422	487	506	533	571	622	672	759	908	1,064	1,188	1,249	1,399	1,473	1,563	1,688	1,809	1,910	1,046	504	851	1,535
Service	1,170	1,260	1,347	1,440	1,559	1,683	1,796	1,935	2,179	2,379	2,521	2,790	2,992	3,207	3,386	3,656	3,888	4,135	2,407	1,355	2,072	3,322
III. Contribution to GDP growth																						
Total GDP	3.6	7.4	6.1	5.8	5.2	3.7	8.0	5.4	10.0	8.3	4.8	4.4	7.5	6.2	5.3	6.3	4.9	5.8	6.0	5.6	7.9	5.6
Agriculture	1.1	3.0	3.4	2.8	1.6	-0.2	4.5	0.9	2.6	2.3	0.6	-0.5	2.4	2.3	1.9	1.6	0.9	2.0	1.8	2.4	2.6	1.4
Industry	1.2	1.8	0.5	0.7	0.9	1.1	1.1	1.7	2.8	2.7	2.0	0.9	2.2	1.0	1.1	1.5	1.4	1.1	1.4	1.0	2.1	1.4
Service	1.2	2.6	2.3	2.3	2.8	2.8	2.4	2.8	4.6	3.4	2.2	4.0	2.9	2.9	2.3	3.2	2.6	2.7	2.8	2.2	3.3	2.9
IV. Share of GDP																						
Total GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	55.2	54.2	54.2	54.0	52.8	50.7	51.1	49.3	47.2	45.7	44.2	41.8	41.2	40.9	40.7	39.7	38.7	38.5	46.7	54.1	48.3	40.7
Industry	11.9	12.8	12.5	12.4	12.7	13.3	13.3	14.3	15.5	16.8	17.9	18.0	18.7	18.6	18.7	19.0	19.5	19.4	15.8	12.4	15.0	18.7
Service	32.9	33.0	33.3	33.6	34.6	36.0	35.6	36.4	37.2	37.5	37.9	40.2	40.1	40.5	40.6	41.2	41.8	42.0	37.5	33.5	36.7	40.5
Memorandum item:																						
Growth in real per capita GDP	1.3	4.5	3.3	2.8	-0.5	0.3	4.4	1.9	6.3	4.7	1.3	0.9	3.9	2.6	1.8	2.8	1.4	2.2	2.6	2.1	4.3	2.2
Real GDP per capita	24,509	25,622	26,463	27,215	27,066	27,137	28,327	28,860	30,688	32,143	32,575	32,882	34,172	35,072	35,694	36,689	37,201	38,033	31,130	26,175	30,004	31,066
Population (millions)	14.5	14.9	15.3	15.7	16.7	17.2	17.8	18.4	19.1	19.7	20.4	21.1	21.8	22.6	23.4	24.2	25.0	25.9	19.6	15.4	18.8	19.4

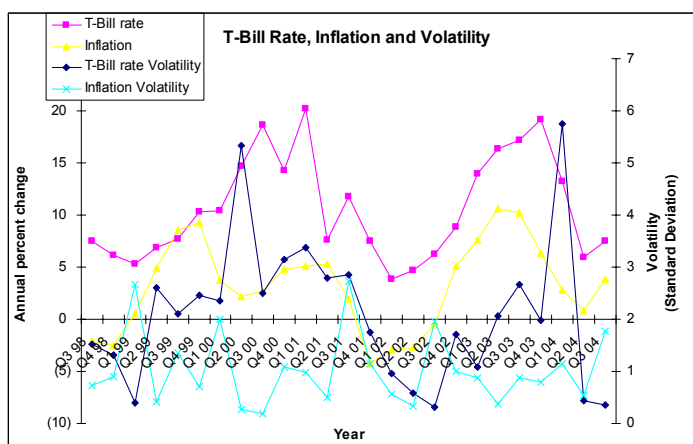
Sources: Uganda Bureau of Statistics; and Fund staff estimates.

II. THE CHOICE OF INTERMEDIATE TARGET AND MIX OF STERILIZATION INSTRUMENTS²⁰

A. Introduction

25. **Uganda has succeeded in stabilizing inflation after years of very high inflation in the late 1980s to early 1990s.** A key factor in bringing inflation under control has been the implementation of tight financial policies along with prudent macroeconomic management (IMF 1996). Despite its success in achieving price stability, the Bank of Uganda (BOU) conducts monetary policy in a difficult setting characterized by a high propensity to transact in cash, and shallow financial markets. This is further complicated by the large foreign exchange inflows in the form of grants and loans (in excess of 10 percent of GDP) to finance the county's large fiscal deficit and poverty reduction strategy, which injects vast amounts of liquidity into a thinly monetized economy. Against this background, monetary conditions have been characterized by high and volatile interest rates, reflecting pressures due to sterilization operations and difficulties in liquidity management.

26. **In conducting monetary policy to achieve its ultimate price objective, a central bank may use either a monetary quantity or an interest rate as its intermediate target.**²¹ Since 2002, the BOU has been targeting the monetary base to achieve its medium-term goal of maintaining underlying (nonfood) inflation below 5 percent. However, interest rates have remained high and volatile, albeit declining recently, questioning the appropriateness of a monetary target and the feasibility of using an interest rate as an operating target. For an operational target to succeed in achieving a price objective there should be an identifiable transmission mechanism from the target to the price objective so that policymakers can determine the level they should seek.²² Therefore, the second section of the chapter attempts to identify the transmission mechanism of monetary aggregates and interest rates on inflation. As it turns out, monetary aggregates, particularly broad money and to a lesser



²⁰ Prepared by Shanaka J. Peiris

²¹ Alternatively, it could peg its exchange rate to another country's currency, but this option is not pursued here since Uganda's floating exchange rate regime is deemed to have served it well and a regime switch is not under consideration.

²² Moreover, the Central Bank would require a liquid market in the target instrument that is not dominated by its own operations, which is not the case in Uganda given the limited activity of the interbank and other securities markets.

extent, reserve money, seem to have a significant impact on prices in the sample period, whereas interest rates and NDA do not, suggesting that the BOU should continue to operate within a monetary targeting framework at present.

27. **The government's preeminent monetary policy challenge is to absorb the vast amounts of liquidity being injected into the economy as it draws down its external grants and loans so as to meet its price objective.**²³ The BOU's sterilization operations rest on two pillars: it can either absorb the liquidity by selling foreign exchange, or, (on behalf of the government) issue treasury bills and bonds.²⁴ For a given monetary target, when excess liquidity is mopped up through increased sales of foreign exchange, the sales carry the risk that an exchange rate appreciation (or a slower depreciation) may adversely affect competitiveness and hence, the export sector.²⁵ At the same time, the use of domestic debt sales for sterilization purposes may (i) put undue upward pressure on interest rates, crowding out credit to the private sector; (ii) erode the BOU's profitability as it absorbs the burden of the spread between the interest rate it pays on open market paper and that which it receives from foreign reserve holdings and/or other investments; and/or (iii) put pressure on the government budget, as it ultimately bears the costs of BOU's sterilization operations. The budgetary costs of additional domestic debt issuance are clear, but the optimal mix of sterilization instruments in the short run will crucially depend on the price elasticities of the treasury bill and foreign exchange markets, on the one hand, and on the differential impact of exchange rate and interest rate changes on the real economy, on the other. However, **it is important to bear in mind that under a floating exchange rate regime the amount of foreign exchange sales should be reasonably closely related to the amounts of net donor flows over time to facilitate the requisite current account adjustment and avoid a significant real exchange rate misalignment**, which needs to be closely monitored to ensure that the mix chosen does not eventually cause the real exchange rate to deviate far from its equilibrium.²⁶ The price elasticities of the treasury bill and foreign exchange markets are expected to be high because of the shallowness of markets, therefore, the third section of this chapter will provide a preliminary examination of the impact of interest rate and exchanges rate changes on the business cycle.

²³ External grants and loans, which are credited to the BOU's foreign correspondent bank accounts, have no domestic liquidity impact until they are drawn down and spent domestically by the government. A lower fiscal deficit due to higher taxes or lower expenditures due to less external financing would reduce the amount of liquidity injected.

²⁴ In addition, the BOU also uses repos for fine-tuning 'temporary' liquidity variations, although there have been a greater reliance repos for sterilizing structural liquidity as of late.

²⁵ Sales of foreign exchange could be used as a tool of sterilization only to a point until the foreign exchange reserve target becomes binding, which is not presently the case in Uganda.

²⁶ This is consistent with the strategy suggested by Adam and others (2004).

Section II attempts to identify the transmission of monetary aggregates and interest rates on prices using a recursive Vector Autoregression (VAR) approach encompassing the key sources of inflation in low-income countries (LICs). The third section estimates the marginal impact of interest rate and exchange rate changes on the manufacturing production index and exports, given the lack of high frequency GDP, which would help gauge the weight to attach to the mix of tools for liquidity management. Given the BOU’s preannounced objective of maintaining core inflation below 5 percent and its intent to progress toward a formal inflation targeting (IT) regime, the fourth section provides a short exploration of the scope for adopting a full-fledged IT framework. Section five presents conclusions.

B. Monetary Transmission Mechanism

Inflationary dynamics are evaluated using a six-variable recursive VAR approach.²⁷

The structure is a stripped-down version of McCarthy (2000), who employs a production chain model of price determination. The underlying model of the distribution chain translates into a recursive structure of the variance-covariance matrix, which enables the identification of shocks stemming from external and policy developments and their effects on consumer inflation. The structural shocks are recovered from the VAR residuals using the Cholesky decomposition of the variance-covariance matrix.²⁸ The VAR comprises six variables in the following order: international oil prices, coffee prices, output gap, exchange rate, monetary aggregates or interest rates, and consumer prices.

$$\pi_t^{oil} = E_{t-1}(\pi_t^{oil}) + \varepsilon_t^{oil} \quad (1)$$

$$\pi_t^{coffee} = E_{t-1}(\pi_t^{coffee}) + \alpha_1 \varepsilon_t^{oil} + \varepsilon_t^{coffee} \quad (2)$$

$$y_t = E_{t-1}(y_t) + \beta_1 \varepsilon_t^{oil} + \beta_2 \varepsilon_t^{coffee} + \varepsilon_t^y \quad (3)$$

$$\Delta e_t = E_{t-1}(\Delta e_t) + \chi_1 \varepsilon_t^{oil} + \chi_2 \varepsilon_t^{coffee} + \chi_3 \varepsilon_t^y + \varepsilon_t^e \quad (4)$$

$$\Delta M_t = E_{t-1}(\Delta M_t) + \delta_1 \varepsilon_t^{oil} + \delta_2 \varepsilon_t^{coffee} + \delta_3 \varepsilon_t^y + \delta_4 \varepsilon_t^{\Delta e} + \varepsilon_t^{\Delta M} \quad (5)$$

$$\pi_t^c = E_{t-1}(\pi_t^c) + \gamma_1 \varepsilon_t^{oil} + \gamma_2 \varepsilon_t^{coffee} + \gamma_3 \varepsilon_t^y + \gamma_4 \varepsilon_t^{\Delta e} + \gamma_5 \varepsilon_t^{\Delta M} + \varepsilon_t^c \quad (6)$$

28. **The system encompasses the four key sources of inflation** identified by Loungani and Swagel (2001) in their analysis of the sources of inflation in developing countries. First,

²⁷ A structural VAR model was not attempted given the purpose of the paper and the lack of a rich array of reliable high-frequency macroeconomic data (e.g., productivity).

²⁸ The Cholesky decomposition imposes the correct number of restrictions for just identification and imposes a recursive structure on the system; so that the most endogenous variable is ordered last, i.e., it is affected by all contemporaneous ‘structural’ shocks. The results of the VAR thus could be highly susceptible to the ordering chosen.

as discussed by Agenor and Montiel (1999), inflation in developing countries is often linked to underlying fiscal imbalances. Such imbalances can lead to an increase in inflation by causing excessive money creation, as in Sargent and Wallace (1981), or by triggering a balance of payments crisis and resulting in an exchange rate depreciation, as in Liviatan and Pierman (1986). Another source of inflation may be due to macroeconomic overheating—that is, an excessive expansion of aggregate demand over potential output supply—as examined by Coe and McDermott (1997) for 13 Asian economies, estimated by the influence of an activity variable such as the output gap. A third source of inflation, examined by Ball and Mankiw (1995) is supply-side ‘cost shocks’—movements in the prices of particular goods, such as oil and food prices, that lead to persistent changes in the aggregate price level. Finally, as discussed by Chopra (1985), inflation may have a substantial inertial component arising from the sluggish adjustment of inflationary expectations or the existence of staggered wage contracts (see Calvo, 1983; and Christiano, Eichenbaum, and Evans, 2001). The specification encompasses the more traditional Phillips curve explanations of price changes.²⁹

Data

29. Monthly headline and core consumer price inflation (CPI) data are available for 1990 on from the Uganda Bureau of Statistics, with substantial quality improvements introduced in 1997.³⁰ Monthly UK Brent oil prices and New York Uganda coffee prices published by the IMF’s World Economic Outlook (WEO) are used for international supply shocks. Monthly exchange rates, monetary aggregates, and interest rates are from the monetary survey and treasury bill auctions released by the BOU. Demand conditions are identified by using deviations of the industrial production index from its potential using a HP filter.

30. **An analysis of the time-series properties of the variables reveals that the variables are integrated of order one or I(1), except for industrial production and exports, which are trend stationary.** Therefore, the I(1) series are differenced for estimation purposes to avoid the spurious and inconsistent regression problem (Hendry 1995).³¹ Results of Granger causality tests are somewhat inconclusive, showing little evidence of Granger causality in either direction, but lend support for a transmission of external and domestic shocks to consumer prices, particularly exchange rate and broad money to core inflation.

²⁹ The system does not, however, encompass New Keynesian Phillips curve specifications, which are based on firm microfoundations, and is a weakness in the approach taken. See Gali and Gertler (1999) for such a framework.

³⁰ Food and foodstuff have a 27.4 percent weight on the CPI basket, based on the living standard survey of 1997/98.

³¹ However, first differencing may lead to the loss of information on the long-run relationships between the variables, which is a weakness in the approach.

Results

31. **Inflation is driven by its own innovations, as well as by monetary and exchange rate shocks.**³² Variance decompositions, which break down the variation in the endogenous variables down to the component shocks in the VAR, are reported below over 12 months. Generally, variances of all variables are largely explained by their own innovations at all time horizons. Exchange rate changes and money growth each explain about 10-15 percent of the variation in core inflation. The same holds true for headline inflation, although less significantly so. Broader monetary aggregates (M2 and M3) seem to explain a larger share of the variation of core inflation than reserve money, while interest rates and NDA have an insignificant effect. Impulse response functions trace out the effects of orthogonal shocks to international supply conditions, exchange rates, and monetary aggregates on prices through the dynamic structure of the VAR (see below). Again, own innovations have a significant effect on core and headline inflation, while exchange rate shocks, which have the second largest effect, persist for about three to six periods followed by monetary shocks. Impulse responses indicate that demand shocks may have a negative influence on inflation, but the variance decompositions suggest a discounting of their importance. A striking feature is the very low persistence of own innovations and other shocks on consumer prices.

32. **The exchange rate pass-through to headline inflation is greater than to core inflation.**³³ The cumulative impulse response to an exchange rate shock of one standard deviation (or 2.4 percent) gives an exchange rate pass-through elasticity (percent change in price level t periods after the shock over an initial percent change in the exchange rate) of 0.24 for headline inflation and 0.17 for core inflation after six months. The less than one-to-one exchange rate pass-through may be explained by the degree of openness and strategic behavior in the form of pricing-to-market under imperfect competition.

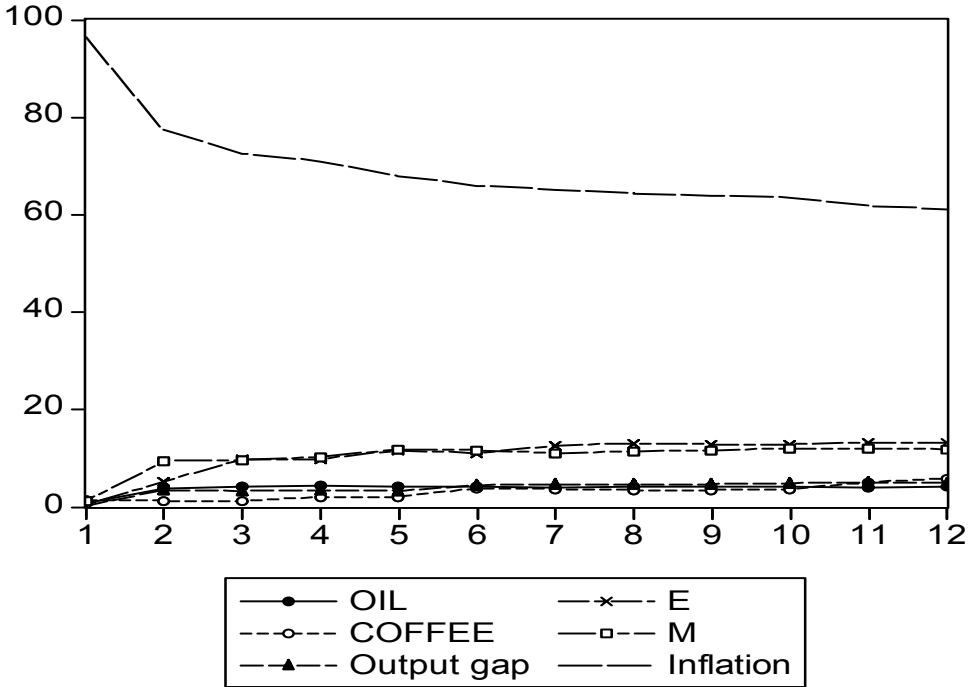
33. **Overall, monetary aggregates have an identifiable transmission mechanism on consumer prices while interest rates do not.** For example, a 1 percentage point increase in M2 leads to a 0.2 percent rise in core inflation in three months. This supports the continuation of BOU's monetary targeting framework as a means of controlling inflation. Therefore, the BOU's problem has become to determine how much (if any) of the large aid-induced domestic liquidity injections need to be neutralized, and how this is to be achieved. The presence of a relatively stable money demand function in Uganda (see Hensridge, 1999; and Nachega, 2001) provides a useful framework to determine the level of monetary growth that is appropriate to achieve a given inflation target, therefore, the next section addresses the yet uninvestigated instrument mix to sterilize excess liquidity.³⁴

³² The VAR is estimated from June 1993 to June 2004 on a monthly basis in log differences, with the lag length determined by Akaike information criteria.

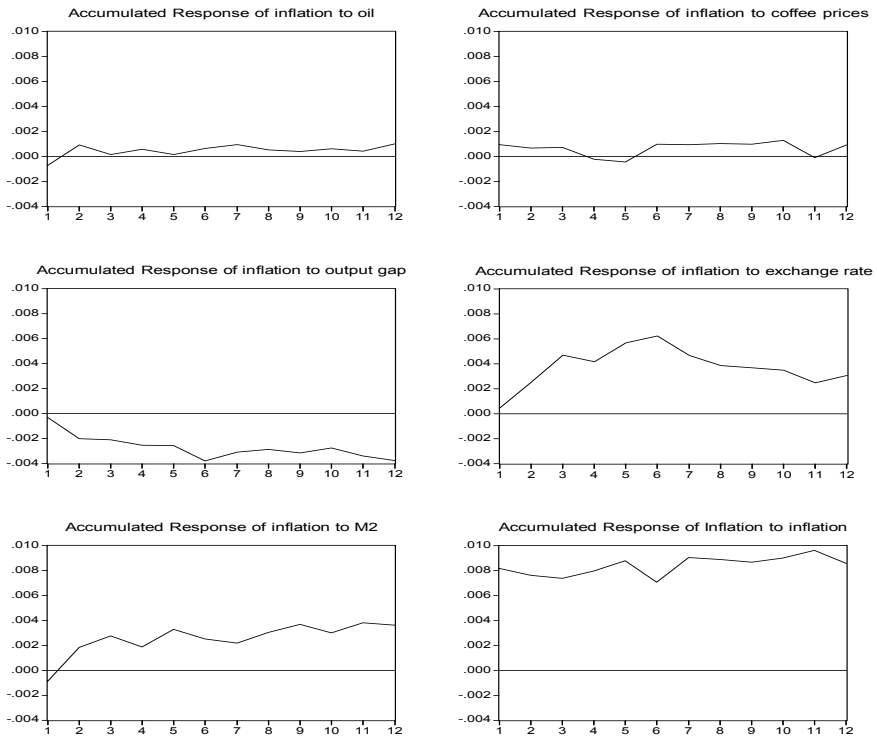
³³ This may be explained by the greater share of nontradable goods in core inflation.

³⁴ An estimation of a money demand function with more recent data also suggested a money demand function with an income elasticity of unity and the presence of a clearly identifiable single structural break.

Variance Decomposition of Core Inflation



Accumulated Response to Cholesky One S.D. Innovations



C. The Mix of Instruments for Sterilization

34. **The mix of tools for sterilizing liquidity could affect the real economy in the short term.** As mentioned earlier, the BOU's sterilization operations rest on two pillars: net treasury bill issuance and foreign exchange sales; therefore, this section provides a preliminary investigation of the optimal mix of sterilization instruments in the short term based on the differential impact of exchange rate and interest rate changes on the industrial production index and exports, given the lack of high-frequency GDP data.

35. **The time-series properties of exports and industrial production provide a simple methodology to estimate the marginal impact of interest rate and exchange rate changes.** The de-trended series of exports and industrial production are explained by differenced series of interest rates, exchange rates, and other potential determinants in a simple regression framework.³⁵ The presence of widespread credit rationing in low-income countries, endogeneity problems, and dynamic effects are also considered.

36. **The impact of interest rate and exchange rate changes on industrial production is significant.** Real interest rate and exchange rate changes have a statistically significant impact on industrial production, with a higher interest rate negatively affecting growth as expected, but a real exchange rate appreciation supporting a manufacturing expansion. The results are robust, controlling for the impact of domestic credit, dynamic effects, and potential endogeneity problems. The counter-intuitive positive impact of an appreciation is probably explained by Uganda's heavy reliance on intermediate imports by the manufacturing sector, although the absence of data on intermediate imports precludes a formal test. Moreover, the impact of interest rates is over and above its potential impact by affecting the availability of credit, which is also statistically significant.

37. **Export performance is negatively affected by currency appreciation, but credit availability is also important.**³⁶ Short-term export fluctuations are significantly hurt by a real exchange rate appreciation as expected, while interest rates do not show a statistically significant effect, but have a negative sign. However, credit availability is a significant determinant of export growth in the short term, with an elasticity similar to that of real exchange rate changes. This result cautions against a narrow focus on real exchange rate dynamics in explaining export performance.

³⁵ Exchange rate and interest rate volatility are also often quoted as potential determinants of economic performance in the short term, but the inclusion of 'volatility' indicators such as standard deviations and forecasts of Generalized Autoregressive Conditional Heteroskedastic (GARCH, 1,1) models did not show significant effects, and thus are excluded from the empirical framework. In this sense, the results for Uganda differ from Adam (2001).

³⁶ The contrasting determinants of industrial production and exports are compatible given the very small share of manufacturing in total exports.

38. **A simple and preliminary exercise to determine the optimal mix suggests the BOU should mop up a larger share of excess liquidity through foreign exchange sales rather than net treasury bill issuance.** Assigning equal weights to the export sector and industrial production sector, an arbitrary assumption suggests that less than 50 percent of excess liquidity should be sterilized by net treasury-bill issuance, mainly driven by the compensatory effects of an exchange rate appreciation on industrial production. Obviously, the mix would be skewed even further toward greater foreign exchange sales if we assumed a close relationship between interest rates and credit growth, which could not be precisely estimated for Uganda. The significant impact of both interest rate and exchange rate changes on private sector activity does not support a corner solution of only relying on one instrument for sterilization purposes.

Dependent Variable: De-trended Real Industrial Production Index				
Monthly data from June 1993-June 2004)				
	Baseline	With Domestic Credit to the Private Sector	With Lag Dependent Variable	All Regressors in Lags
Constant	0.01024	0.04476	0.01388	0.02991
(t-statistic)	0.43930	2.54354	0.82998	1.80445
p-value	0.66120	0.01220	0.40820	0.07360
Δ real private credit		0.67194	0.28049	0.34527
(t-statistic)		8.28309	3.21361	4.04206
p-value		0.00000	0.00170	0.00010
Δ real exchange rate	0.88228	0.65984	0.25454	0.23341
(t-statistic)	8.24634	7.15062	2.72050	2.58497
p-value	0.00000	0.00000	0.00750	0.01090
Δ real interest rate	-0.0099	-0.00406	-0.00117	-0.00255
(t-statistic)	-2.50268	-2.74835	-1.8790	-2.1781
p-value	0.00616	0.00690	0.0450	0.0215
De-trended Real industrial production index (-1)			0.56878	0.54836
(t-statistic)			7.57747	7.47957
p-value			0.00000	0.00000
R-squared	0.51138	0.67126	0.77599	0.77722
Adjusted R-squared	0.49965	0.66337	0.76688	0.76809
Durbin-Watson stat	0.65709	1.04380	2.22851	2.11098
F-statistic	43.60687	85.07838	85.21653	85.12329
Prob(F-statistic)	0.00000	0.00000	0.00000	0.00000

Note: All coefficients are in elasticities

Dependent Variable: De-trended Real Exports
(monthly data fro June 1993-June 2004)

	Baseline	With Domestic Credit to the Private Sector	With Lag Dependent Variable	All Regressors in Lags
Constant	0.0374	0.0349	0.04985	0.0347
(t-statistic)	2.3890	3.3905	3.3094	3.3485
p-value	0.0008	0.000	0.000	0.000
Δ real private credit		0.45890	0.3944	0.31945
(t-statistic)		2.8459	2.9569	2.90634
p-value		0.00000	0.00170	0.00010
Δ real exchange rate	-0.9435	-0.5043	-0.4509	-0.3938
(t-statistic)	2.349	2.2348	2.032	1.8837
p-value	0.0038	0.0049	0.010	0.039
Δ real interest rate	-0.0054	-0.0045	-0.0040	-0.00347
(t-statistic)	-0.8943	-0.7459	-0.5484	-0.4589
p-value	0.3159	0.4480	0.5896	0.7548
De-trended Real Exports (-1)			0.3905	0.4580
(t-statistic)			4.4385	3.9054
p-value			0.00000	0.00000
R-squared	0.37138	0.4339	0.4659	0.4223
Adjusted R-squared	0.35403	0.41564	0.4365	0.39359
Durbin-Watson stat	1.4589	1.3935	1.9230	2.5490
F-statistic	22.8539	26.4395	31.5360	29.4959
Prob(F-statistic)	0.00000	0.00000	0.00000	0.00000

Note: All coefficients are in elasticities

D. The Scope for Inflation Targeting

The preconditions for inflation targeting in developing countries proposed in the literature are not fully met, although Uganda is quite advanced compared with most other LICs and could plausibly inch toward such a framework in the medium term. The main prerequisites for adopting an IT framework in developing countries, as identified by Masson and others, (1997), are as follows: a degree of monetary policy independence, in particular, freedom from fiscal dominance and no commitment to a particular level of or path of the nominal exchange rate (or any other nominal anchor, such as wages); agreement on a well-defined framework containing an explicit target for future inflation and a commitment to target that rate as an overriding objective; the presence of a model for forecasting future inflation; and an operating procedure for adjusting monetary instruments in case the forecast inflation differs from its target. Uganda has largely overcome concerns of fiscal dominance

and “fear of floating,” although donor dependence is a concern. It also has a well-articulated inflation target of maintaining underlying inflation below 5 percent in the medium term, which has many of the characteristics of a suitable target (see Svensson, 2000), although more research is needed whether it is an ‘optimal’ target. However, one of the major shortcomings is the presence of potentially conflicting objectives in the Central Bank Act, 1993, including those of supporting socioeconomic development and lack of formal central bank independence with no binding limits on government recourse to central bank borrowing, although the BOU enjoys a significant degree of independence over the use of its instruments. Models for predicting inflation are present but are not fully specified or as precise as highlighted in the paper. The greatest weakness is probably the absence of a procedure, or rule, for adjusting monetary instruments systematically in case the forecast inflation (or any other objective) differs from its target in the presence of numerous shocks. Overall, Uganda would need to make some progress on all these fronts before contemplating a switch to an IT framework.

E. Conclusions

The BOU should continue to operate within a monetary targeting framework at present, while a preliminary investigation of the optimal mix of sterilization instruments in the short term suggests a fair mix of both net treasury bill issuance and foreign exchange sales, unless there is an much greater weight on the export sector than on industrial (or manufacturing) production. The BOU could potentially move toward an IT framework in the long term, but would need to make progress in a number of areas and conduct further research, including on the monetary transmission mechanism as the economy becomes more sophisticated. A very preliminary, simplistic exercise to determine the optimal mix suggests that more than 50 percent of excess liquidity should be sterilized through foreign exchange sales, but the tentative conclusion requires further research. It is important to bear in mind that the optimal mix of sterilization instruments is a short-run consideration, and it is necessary to closely monitor the level of real exchange rate misalignment to facilitate the requisite current account adjustment that is related to the large donor inflows. Overall, there is a need for more research into operationalizing quantitative frameworks that would maximize the objective function of the central bank in countries like Uganda, which are subject to large donor flows and numerous exogenous shocks, given the depth of the financial system and macroeconomic linkages.

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III. FINANCIAL SECTOR REFORMS IN UGANDA 1999-2004³⁷

A. Introduction

39. **The financial system in Uganda is small, underdeveloped, and dominated by commercial banks** (Appendix, Figure 1). The banking sector is characterized by a large share of foreign ownership and high concentration. The level of financial intermediation is low by regional and LIC standards (Table 1), partly reflecting the weak supervisory framework, bank failures, and state ownership and directed lending problems of the past that led to a significant loss of confidence. The structure of banks' balance sheets also reflects their preference for liquid and low-risk assets with bank lending constrained by a number of structural impediments (for example, contract enforcement problems, poor credit discipline and information sharing, and the narrow range of assets acceptable as collateral). Interest spreads are also high by comparator standards, attributed to higher operating cost, credit risk, and/or weak competition.

Table 1: Financial Intermediation Across Countries, 2003 (In percent) 1/

	Private Credit/GDP	Bank Deposits/GDP	Loan-Deposit Ratio	Overhead Costs
Uganda	7.0	19.6	42.1	7.9
Tanzania	6.8	22.2	40.9	7.0
Kenya	22.6	42.9	60.1	6.1
SSA	19.1	31.3	74.2	6.1
LICs	15.0	30.7	70.0	5.9

Sources: International Financial Statistics (IFS) and banks' balance sheets

1/ Private credit-to-GDP is total claims of financial institutions on the domestic private nonfinancial sector as share of GDP. Bank deposits/GDP is total deposits in deposit money banks as share of GDP. Loan-deposit ratio is the aggregate ratio of lending to the private sector to total deposits for deposit money banks. Overhead costs are banks' operating costs relative to total earning assets.

40. **Uganda has made substantial progress in establishing the basis for a sound and profitable financial system.** The health of the banking system improved remarkably following the closure of several distressed banks, substantial improvements to banking supervision with the introduction of a risk-based approach, and the privatization of the Uganda Commercial Bank (UCB) in September 2002 to a reputable international bank. The regulatory framework has also been modernized with the passage of the new Financial Institutions Act (FIA), 2004 and Microfinance Deposit-Taking Institutions Act (MDI), 2003. Despite growing microfinance institutions (MFIs) and Non-Bank Financial Institutions (NBFIs), gaps remain in the provision of deposit and payment services in rural areas and in financing agriculture, small- and medium-sized enterprises (SMEs), and infrastructure. The MFI and NBFIs sector is also more vulnerable, requiring strengthened supervision and eliminating harmful government interventions.

³⁷ Prepared by Shanaka J. Peiris but relies on the Financial Sector Assessment Program (FSAP) of 2001 and Aide Memoire of FSAP Update of 2004 for much of the data and analyses.

41. **A more efficient and deeper financial system should, over time, contribute more to economic development.** While a sound and healthy banking system provides a good foundation for growth and financial deepening, the FSAP update identified the need for a second-generation wave of reform while maintaining strong prudential oversight by ameliorating the structural impediments to lending, promoting competition, and minimizing distortions in the form of subsidized and/or directed lending (Box 1). Key long-term challenges are to restructure the pension system, promote long-term financing through nondistortionary channels, and develop capital markets.

Box 1. Preliminary Summary of Key FSAP Update Recommendations

Improve financial system efficiency and outreach

- Accelerate licensing and establishment of a credit reference bureau.
- Accelerate rehabilitation of the land and companies registry.
- Overhaul the corporate insolvency regime and supporting taxation framework, including by passing new insolvency legislation that gives creditors the right to commence bankruptcy procedures.
- Strengthen institutional capacity of Commercial Court and of Official Receiver.
- Improve disclosure and transparency of interest-and account-related charges.
- License tier 3 institutions in compliance with the principles set out in the MDI Act.
- Focus government capacity-building efforts on regulated institutions and high performing tier 4 entities.
- Dismantle any remaining government schemes that lend funds for microfinance.
- Avoid politically driven promotion of new MFIs and SACCOs.
- Expand access to the payment system to tier 2 and 3 institutions.

Promote term financing and develop capital markets

- Restructure governance of NSSF, including by hiring independent professional board members.
- As soon as the regulatory authority for pensions is established and functional, rescind the monopoly status of the NSSF.
- Verify the arrears of the public service pension scheme and undertake actuarial evaluation with a view to establishing a contributory trust fund.
- Any future donor support to term financing, such as the EIB facility to be provided at market rates.
- Expeditious assignment of an incentive-based management contract and partial sale of UDBL combined with the DFD of BOU.
- Increase private participation in HFCU, minimizing the involvement of government and NSSF.

Prudential sector stability and regulation

- Continue to monitor and improve the risk-based supervisory regime.
- Establish DIF as a separate legal entity without creating a separate institution outside the BOU.
- Invest DIF assets in safe but high-return securities, such as government paper.
- Issue investment regulations for insurance companies.

Systemic liquidity management

- Find a mechanism for decoupling the bank rate from the rediscount rate to signal the monetary policy stance.
- Reemphasize the role of fiscal policy in liquidity management.
- Consider the consequences of shifting project accounts to the BOU.
- Review the demand for long-term government debt and consider issuing floating rather than fixed-rate debt.

B. Background

42. **Liberalization of the financial system was one of the main pillars of Uganda's highly successful Economic Recovery Program of the early 1990s.** In 1992, all interest rates were allowed to become market determined, including treasury bill yields. In 1993, a new financial institutions bill and central bank charter were enacted, which, among others things, clarified the role of the BOU as the regulator and supervisor of the banking system. Although its supervisory capacity was weak, owing largely to an acute understaffing of qualified bank inspectors, the BOU made a concerted effort to develop its capabilities over time. Largely as a result of these measures, the public gained greater confidence in the banking system, which led to strong growth in financial intermediation from levels that were among the lowest in sub-Saharan Africa.

43. **Efforts in the mid-to-late 1990s focused on cleaning up and recapitalizing the banking sector.** Reflecting Uganda's history of civil strife in the 1970s and early 1980s and the pattern of government ownership and intervention in the banking system, Uganda's banks were riddled with nonperforming loans (NPLs) and insolvent. In 1994, a sharp rationalization of bank branches and personnel of two state-owned banks was executed. In 1995 two banks were intervened and recapitalized with subsidized long-term loans from the BOU. In 1998 and 1999, as banking supervision was gaining strength, four more banks (accounting for 12 percent of total system deposits) were intervened and closed. Only deposits of up to a maximum of U Sh 3 million (about US\$2,000 in 1999) were protected by the Deposit Insurance Fund (DIF), but the government fully paid all of the deposits in some failed banks, and then later rescinded its payments. Also, in the same period, the state-owned Uganda Commercial Bank Limited (UCBL) (accounting for 22 percent of total system deposits) was declared insolvent. The Non-Performing Assets Recovery Trust (NPART) was established in 1995 to recover over U Sh 60 billion (US\$34 million) in unpaid loans owed to UCBL as well, of which U Sh 28 billion has been recovered by June 2003, at a good recovery rate by LIC standards. An attempt to privatize the UCBL in the 1990s failed because of irregularities in the transaction. After that, the UCBL's operations were largely restricted to purchasing treasury bills until its eventual privatization in 2002.

C. Reforms, Growth, and State of Play

44. **The banking sector has expanded in a sound manner led by the privatization of UCB, the closure of distressed banks, and strengthened supervision.** The privatization of UCBL was the key reform to spur growth and reduce stability risks of the system, one of the few successful privatizations of a dominant state-owned commercial bank in the African region (Box 2). The clean-up of some small weak banks and the substantial improvements to banking supervision with the introduction of risk-based approach and passage of the new FIA Act, 2004, which conforms to international standards, have also helped make the banking system well capitalized, profitable, and resilient.³⁸ With a sufficiently strong capital base,

³⁸ A small troubled bank was merged with a healthier one in 2002 under the auspices of the BOU, a well-timed and smooth intervention.

profits, good corporate governance, and well-designed systems and controls, the system is well placed to increase its contribution to the development of the economy.

Box 2. Privatization of UCBL and Stanbic's Performance

The acquisition of UCBL by Stanbic and its subsequent performance have, for the most part, fulfilled or exceeded the objectives set forth by the Ministry of Finance and the BOU. Stanbic remains a major player in the banking system, with the widest geographic coverage of any financial institution, having not closed any of the original 68 branches. It serves 28 percent of loans and 29 percent of deposits of tier 1-3 institutions; and the same shares of loans and deposits in the less-than-3 million size category, which represents the lower end of the banking market.

Stanbic has recorded strong growth with improved service quality, outreach, and efficiency. It has reduced the number of dormant accounts and reports a net increase of 150,000 deposit accounts, a reversal of the negative trends of 1999-2002, when deposits stagnated. It has also brought down the minimum opening balance to U Sh 10 thousand, a limit only one other tier 1 bank has (CERUDEB). Moreover, Stanbic has aggressively introduced ATMs throughout its branch network, substantially increasing convenience and reducing transaction costs. Delays in checks clearing and money transfers have also been reduced within the Stanbic network. Stanbic has established a business development unit that originates SME loans and is more active in agricultural lending, particularly by developing finance for out growers of commercial crops, who have had a long-term relationship with multinational buyers. The effects of these changes have resulted in a 55 percent growth rate from 2002 to 2004. In addition to capital investments in the branch network and new systems implementation, human resource changes, including redundancies, hiring young and better-qualified staff at higher wages, and training, have resulted in significant productivity gains

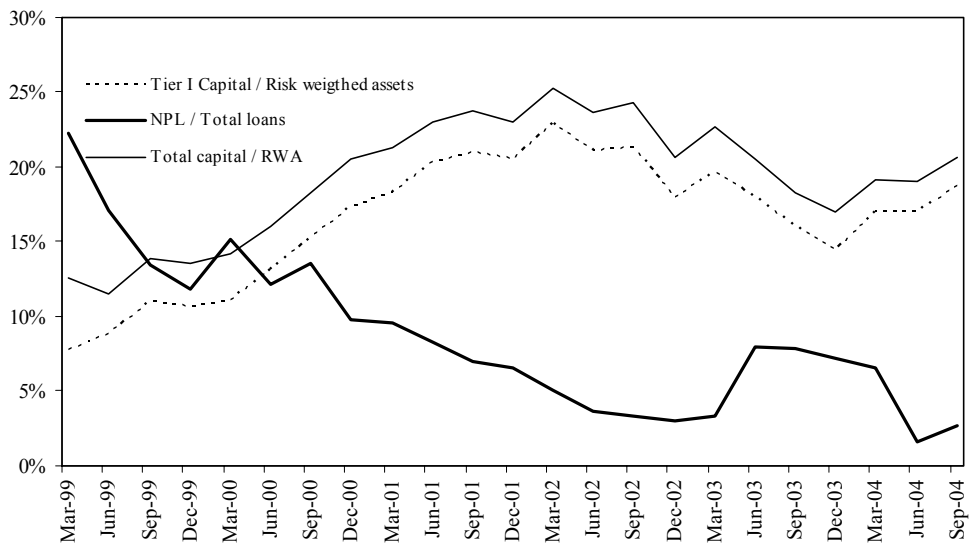
The performance of Stanbic, as measured by CAMEL ratings, is far superior to that of UCBL, and there are no obvious signs of impeding market development or competition. There is clear progress in all key categories of the CAMEL rating of the combined bank, with an increase in capital in December 2003 and profitability in line with the composite tier 1. Stanbic's market share has declined since 1999 as tier 1 competitors have increased their commercial lending and increased their deposit base by offering lower transaction costs to their clients, particularly in the competitive ATM market. Stanbic's share of tier 1 investments in t-bills has also declined from 46 percent to 39 percent as lending has increased. Furthermore, the perception in the sector is that Stanbic's dynamism and introduction of modern techniques and services have had a demonstration effect, with the potential to enhance competition. At the same time, concerns are voiced about possible negative effects of the substantial market dominance by a single bank. An often-cited example is the large share of treasury bills held by Stanbic, as it may be able to corner the market.

45. **Banks' asset quality and profitability have substantially improved although balance sheets still reflect a preference for liquid and low-risk assets.** The quality of banks' risk portfolio has improved, with NPLs falling from 29 percent of the portfolio in 1998 to 12 percent in 1999 and further to 2.6 percent at end-September 2004 (Figure 1).³⁹

³⁹ Starting in October 2001, the BOU aligned its loan classification criteria with international standards and issued circulars in April and July 2002, to adequately capture NPLs in the system.

The NPL ratio rose through end-2003 because of the default of a large trading company.⁴⁰ High interest rate margins and the marked reduction in NPLs have underpinned banks' profitability (Figure 2). It is also noteworthy that banks' income structure has changed recently, reflecting the diversification strategy of some large banks. The changes entail lower dependence on government securities income and higher income from fee and charges (Appendix, Figure 2). Despite the decline in income from government securities, profitability has remained strong on the back on growth in noninterest income and private sector lending. Sector liquidity is still high (Figure 3), although funds invested in government securities (29 percent) and placed abroad (22 percent)⁴¹ now comprise roughly half of total sector assets in September 2004, down from a combined 63 percent in 2000. Therefore, the structure of banks' balance sheets still reflects the high credit risk in the economy.

Figure 1. Uganda: Capital and Nonperforming Assets, 1999-2004
(In percent)

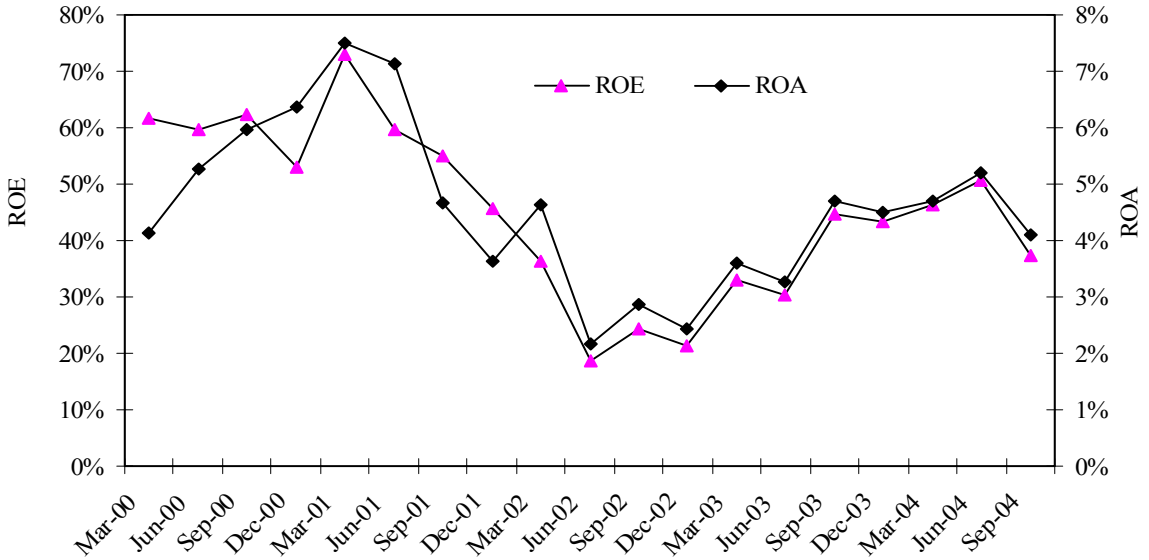


Source: Bank of Uganda

⁴⁰ Changes in NPLs can be relatively large because of the concentration of exposures.

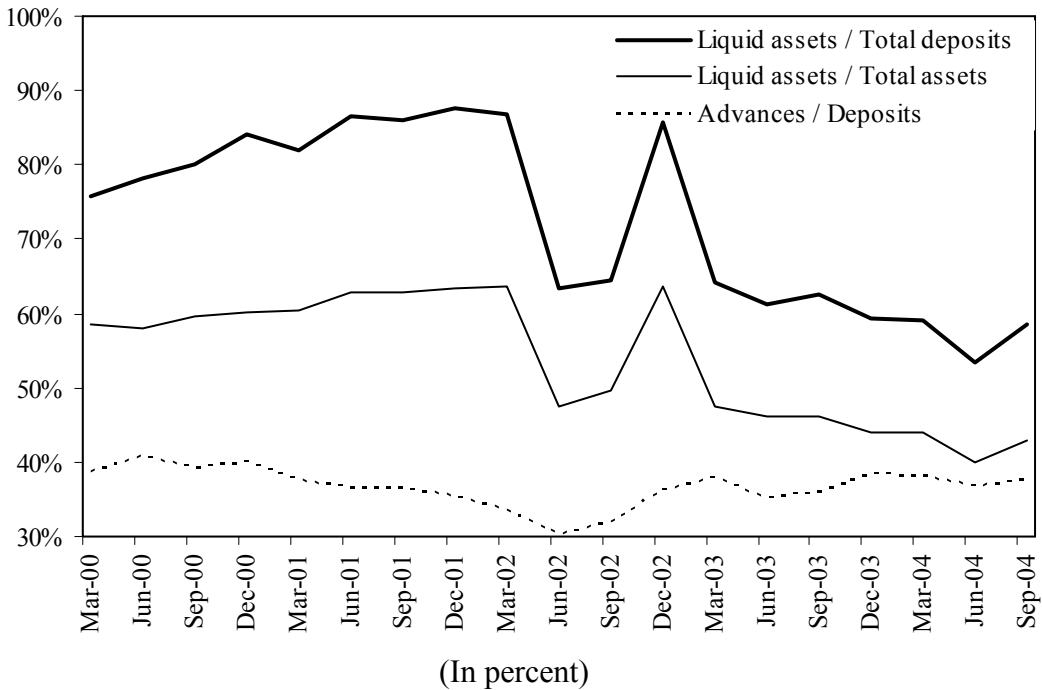
⁴¹ Funds placed abroad largely comprise deposits in the correspondent accounts of the large foreign-owned banks.

Figure 2. Uganda: Indicators of Profitability, 2000-04
(In percent)



Source: Bank of Uganda

Figure 3. Uganda: Indicators of Liquidity, 2000-04



Source: Bank of Uganda

46. **The maturity structure, degree of concentration, and range of products is a constraint.** Only 12 percent of total loans, 35 percent of loan volume, 17 percent of total deposits, and less than 0.4 percent of time deposits have a maturity of more than one year. Moreover, long-term lending is limited to on-lending of a European Investment Bank (EIB) line of credit, channeled through the Development Finance Department (DFD) of the BOU. There is also a high degree of concentration on both the loan and deposit sides, reflecting both the structure of the economy and the size of the banking system (Appendix, Figure 3). Loans to the top five borrowers for each bank in the aggregate, represent, about 24 percent of total loans, while the top five depositors account for about 21 percent of total deposits.

47. **Interest rate spreads are high by regional standards and are mainly explained by overhead costs, credit risk, and weak competition.** Interest rate spreads—the difference between the weighted average lending rate and the weighted average deposit rate—are about 20 percentage points at present. Operating costs explain about 50 percent of the spread, and profits are the second largest component with 30 percent of the overall spread (Table 2). Ugandan banks have higher overhead costs than comparable banks in Kenya, partly because they do more outreach and have recently invested in physical infrastructure, such as branches and ATMs. Cross-country comparisons show that smaller banks have higher overhead costs because they find it difficult to exploit economies of scale and scope. This is confirmed by a significant positive correlation between the share of deposits and loans below U Sh 3 million in total deposits and loans and overhead costs, as well as the relatively low ratio of loan and deposit volume per branch in Uganda. While the 2 percentage points in the spread explained by loan loss provisions can be directly attributed to this high credit risk, the high overhead costs and the high profit margin can also be partly explained by high credit risk, as banks incur high evaluation, monitoring, and enforcement costs. The high interest spread and profit margin may also reflect weak competition. A lack of sharing of credit information on borrowers, widespread fraud, dysfunctional land and company registries, and deficiencies in the insolvency laws and their administration increase credit risks for banks and reduce competitive pressures.

Table 2: Decomposition of Interest Spread in Uganda and Kenya 1/

	Ugandan Banks	Kenyan Private Banks
Lending rate	21.7	17.5
Deposit rate	2.2	3.4
Total spread, of which:	19.5	14.1
Overhead costs	9.0	5.1
Loan loss provisions	2.1	1.7
Reserve requirements + deposit insurance premium	0.4	0.4
Tax	2.3	2.1
Profit margin	5.7	4.8

Source: World Bank and FSAP Update 2004.

1/ Data are from annual financial statements for 2003/04 in Uganda and 2002 in Kenya. Calculations are averages across banks weighted by market share in the lending market.

48. **Stress testing confirms that, while the banking system is exposed to certain risks, particularly large exposures, it is relatively robust and can weather plausible macroeconomic shocks.** Moreover, the vulnerability of the banking sector should be further reduced by the implementation of the Financial Institutions Act 2004, particularly by reducing credit concentrations.

49. **The NBFIs have shown strong growth since liberalization and the introduction of regulatory supervision, but are more vulnerable and thus require enhanced supervision and reform:**

- Recent trends in the **insurance industry** raise concerns about the adequacy of reserves, despite raising minimum capital requirements in 2002, given the robust growth of policy liabilities and the large share of illiquid assets in the form of real estate investments representing two-thirds of total assets in nonlife insurance companies. The recent acquisition of a Ugandan insurance firm by a regional player, further consolidation, and the expeditious sale of a majority share and management control of the National Insurance Corporation should improve the capital base of the sector.
- In the **pension sector**, the performance and governance of the National Social Security Fund (NSSF), to which private sector employees are required to make contributions (15 percent of salary), have continued to be poor with negative real returns and a significant part of contributions absorbed by administrative expenses and fraud. The change of management and initiation of corporate restructuring in 2002 has not produced results as yet, although the recent transfer of the NSSF from the Ministry of Gender and Labor to the Ministry of Finance due to poor governance and controversial investments in the real estate sector provides an opportunity to reform the largest pool of long term saving in the country.
- The nascent **housing finance sector** is showing strong growth, led by the Housing Financing Corporation of Uganda (HFCU) and entrants of new players, although the recent acquisition of a 70 percent stake by NSSF and government involvement continue to distort the market.
- The **leasing market** is essentially limited to two providers each and lack medium-to long-term funding sources. While leasing rates have decreased, they are still above the rates for unsecured lending. A further expansion of leasing toward the small end of borrowers is limited by the tax deductibility of capital depreciation by the lessee rather than the lessor and the absence of factoring.
- The ongoing licensing of **collective investment schemes** (mutual funds) under the new law should also provide competition to commercial banks by offering retail savers shares in a money market funds invested in treasury instruments and equities, serving to increase returns to savers and decrease the governments' and private sector's cost of borrowing.

50. **Uganda has made good progress in expanding outreach and access of financial services to its population.** Branches of financial institutions of tiers 1 to 3 exist in 51 of the 55 districts in the country, with a population per branch of about 87 thousand, when all three tiers are considered, a substantial coverage by African standards. The FSAP Update estimated the total number of deposit accounts held in financial institutions (tiers 1 through 4, using partial data for the last) to be just over 1.7 million, or about 35 percent of households. Tier 1 and tier 3 institutions—15 banks and 4 MDIs—dominate the market. The inclusion in the analysis of about 80 entities from tier 4 (together accounting for a large majority of the tier 4 market) adds only about 150 thousand deposit accounts and 85 thousand loans. The new Micro-Finance Deposit-Taking Institutions Act, 2003 and nurturing the transformation of MFIs into tier 3 institutions should further encourage rural financial intermediation.

51. **Gaps remain, however, in the provision of financial services to rural areas, and in financing SMEs, agriculture and infrastructure.** Although the coverage of deposit accounts as a proportion of the total number of households is relatively large as reported above, the use of deposit and payment services could be substantially expanded. Moreover, only about 11 percent of bank credit is reported as being allocated to agriculture, a more acute level of credit rationing to the sector than in most other countries, given the large contribution of agriculture to GDP. The entire single-borrower capacity of the Ugandan banking system also totals only about U Sh 66 billion and the single largest borrowing capacity of any one bank is only U Sh 14 billion. It is thus unrealistic to expect that substantial initiatives (such as large infrastructure projects) can be financed through the domestic financing system. In addition, Development Finance Institutions (DFIs) play a minor role in Uganda, particularly given the insolvency and associated freeze on lending by the Uganda Development Bank (UDB).

52. **Uganda continues to make progress, supported by FSAP follow-up technical assistance, in improving liquidity management and deepening debt and foreign exchange markets.** The BOU has developed a liquidity management plan that separates the management of short-term “temporary” and long-term “structural” liquidity resulting from government domestic expenditures financed through foreign donor inflows. The BOU uses repos for fine-tuning temporary liquidity variations and a mix of foreign exchange sales and net treasury bill issuance to sterilize structural liquidity, clearly signaling sterilization and intervention actions in the foreign exchange market. Overall, these actions have lowered the volatility of interest rates and helped anchor market expectations. The development of a daily liquidity forecast of government operations, reform of the computation and level of reserve requirements, introduction of a primary dealership, and the issuance of treasury bonds have enhanced monetary management, established a yield curve for the nascent corporate bond market, and facilitated secondary trading of government debt securities. On the government debt market, it would be important to have a medium-term issuance calendar based on a comprehensive government debt management strategy. The calendar should be conservative as to the amount and frequency of offers, particularly at the long-end of the market (5-10 years) and consider issuing floating-rate rather than fixed-rate instruments.

53. **The Uganda Stock Exchange (USE) has served a useful purpose for the privatization strategy of the government, but has not yet raised equity finance for domestic enterprises or provided a viable trading platform.** Trading in the six listed issues is sporadic and negligible measured both in real terms and relative to market capitalization. The costs of issuance on the USE are too high in light of the small number of investors reached. The Capital Markets Authority (CMA), the securities regulator, does not distinguish between types of securities market investors. The USE may be more effective if it is focused on a lower disclosure standard for new issues combined with a greater reliance on collective investment schemes to reach the broader public while targeting the regional market of sophisticated and international investors.

D. Lessons and Challenges

54. **Uganda has made remarkable progress in establishing the basis for a sound and profitable financial system, but financial intermediation remains low.** The low financial intermediation partly reflects past problems, including a weak supervisory framework, bank failures, and state ownership that led to a significant loss of confidence. The health of the banking system improved substantially following the closure of several distressed banks and the privatization of the UCBL in September 2002. However, the balance sheets of banks still reflect their preference for liquid and low-risk assets related to a number of structural impediments (e.g., contract enforcement problems, poor credit discipline and information sharing, and limited use of collateral). Interest spreads, also high by regional standards, are attributed to higher operating cost, high credit risk, and weak competition. Despite the growing number of MFIs, gaps remain in the provision of financial services for agriculture, SMEs, and infrastructure.

55. **A key challenge will be to foster a more efficient and deeper financial system** by ameliorating the structural impediments to lending, promoting competition, and minimizing distortions in the form of subsidized and/or directed lending while maintaining an effective supervisory regime, as presented in Box 1. The vulnerabilities in the insurance sector also require the urgent issuance of investment regulations, with a view to ensuring greater diversity and liquidity in insurance portfolios. Key longer-term challenges are to restructure the pension system, promote long-term financing through nondistortionary channels, and develop capital markets:

- **The reform of the pension sector should be properly sequenced.** Immediate steps should be taken to improve governance of the NSSF by strengthening investment processes, ensuring professional management, and supervision by the BOU until the establishment of a new pension regulator to oversee all retirement benefits schemes in Uganda (public and private).
- **Term financing should be allocated by qualified private financial intermediaries at market prices.** Incentives, governance, and controls should be appropriate to avoid the directed lending, distortions, and governance problems that, for example, led to UDBL's insolvency in the past.

- **Deepening debt, equity, and foreign exchange market will reduce the financing costs of the government and the private sector, and lower the sterilization costs of government liquidity injections related to donor inflows.**

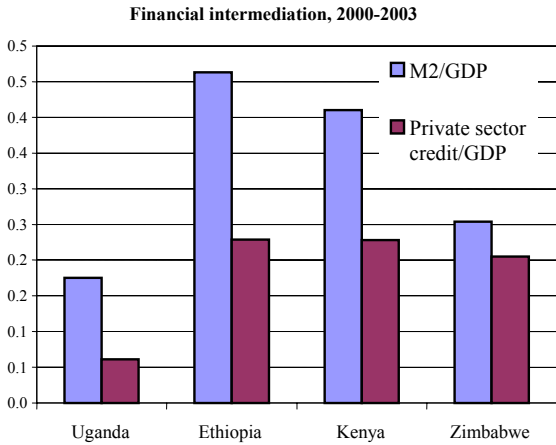
56. **Increased access, product innovation, and concerns about the safety of small-balance deposits in unregulated institutions should be addressed.** The authorities can do this by fostering regulated financial institutions and high-performing tier 4 entities by enforcing basic mandatory prudential standards, governance and transparency requirements for savings and credit cooperatives (SACCOs) while focusing on building the capacity of a small number of high-performing institutions to minimize distortions introduced by government and political interference in the microfinance sector.

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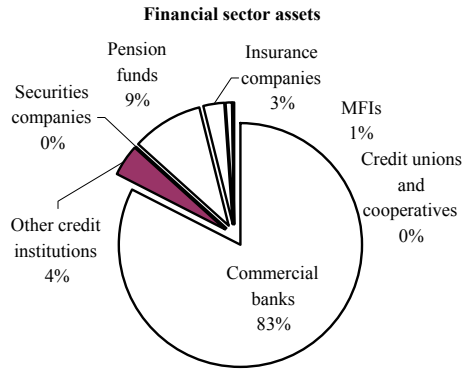
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Figure 1. Uganda: Structure of the Financial System, 2003/04

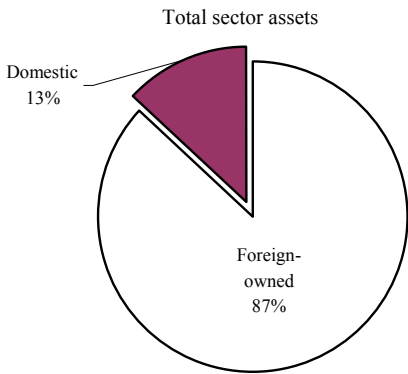
Financial intermediation is lower than neighbors...



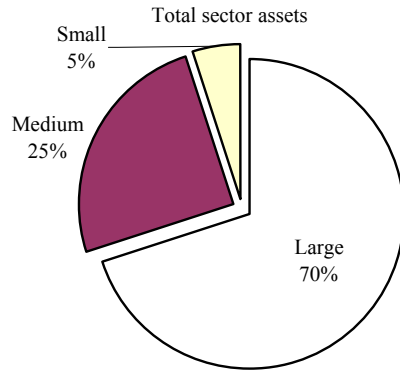
Commercial banks dominate the sector...



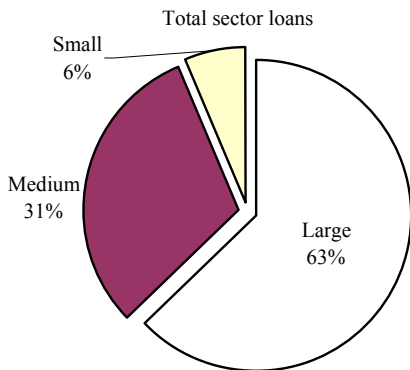
Subsidiaries of foreign-owned banks comprise most of the sector.



Assets are concentrated in the four largest banks.



These banks also have 63 percent of loans...



...and 71 percent of deposits.

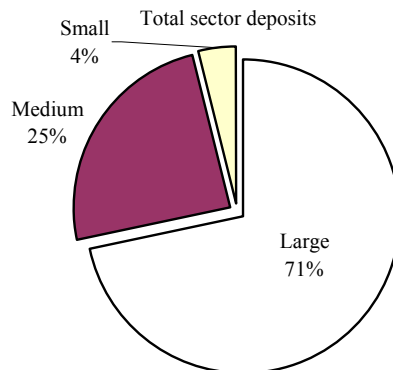
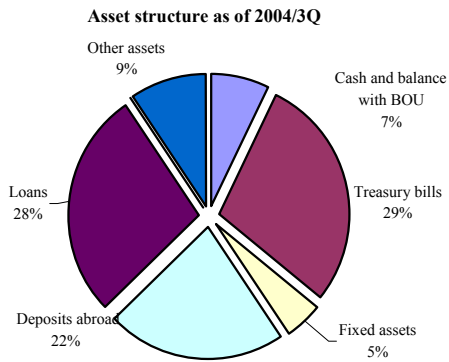
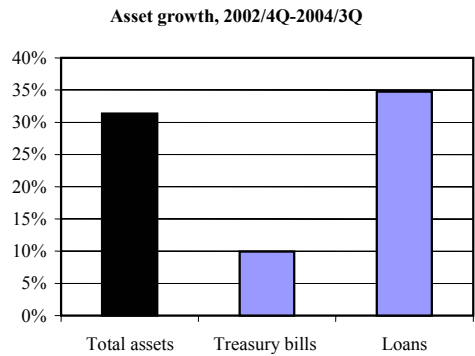


Figure 2. Uganda: Banking System Balance Sheet and Income, 2003/04

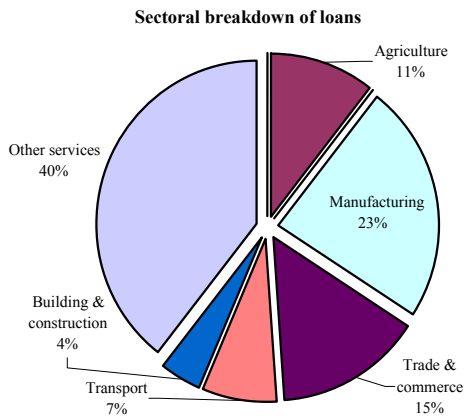
Treasury bills and deposits abroad still constitute half of assets...



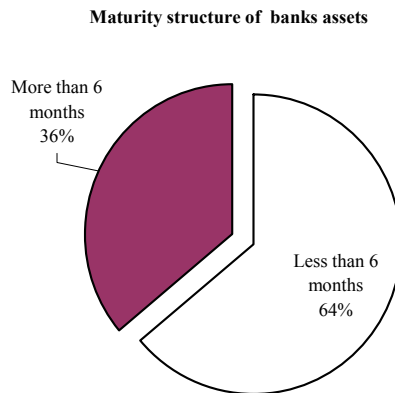
but loans have grown rapidly...



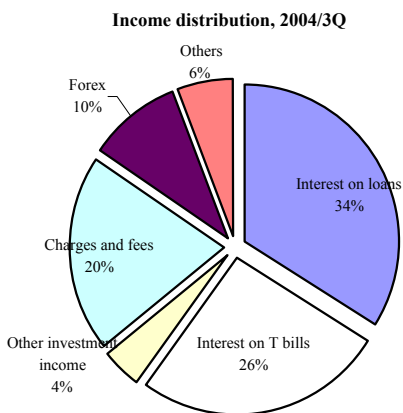
Credit distribution is not commensurate with GDP contribution...



Bank assets have short maturities...



As lending grows...



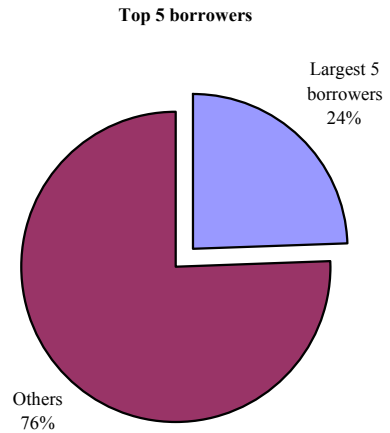
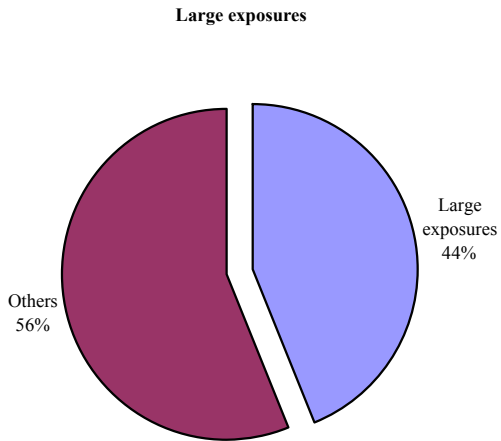
...income from loans and fees have increased.

Income growth from 2002/4Q		
	U Sh Mil	%
Total income	+ 36,892	+ 48.7%
Interest on loans	+ 14,871	+ 64.0%
Interest on T bills	+ 6,883	+ 30.3%
Charges and fees	+ 17,840	+ 368.3%

Figure 3. Uganda: Banking System Concentration, 2003/04

Borrowing is concentrated...

... With the largest 5 borrowers receiving 24 percent of total loans.



The Deposit side is also highly concentrated.

While project accounts represent 12 percent of liquid deposits.

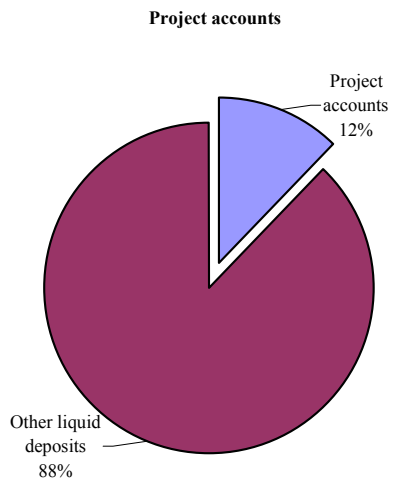
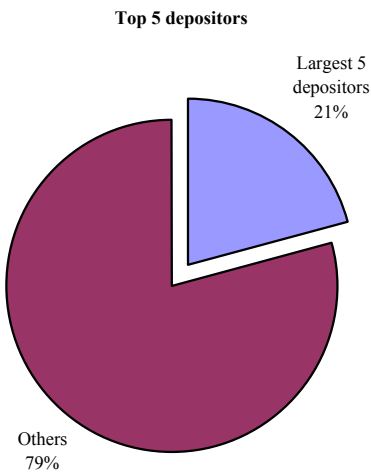


Table 1. Uganda: Gross Domestic Product by Industry at Current Prices, 1997/98–2003/04 1/
(In billions of Uganda shillings, unless otherwise indicated)

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
GDP at market prices	7,518	8,123	8,961	10,016	10,284	11,859	13,235
Indirect taxes	630	718	747	805	872	988	1,114
GDP at factor cost	6,889	7,405	8,214	9,210	9,412	10,871	12,121
Agriculture	2,896	2,845	3,050	3,351	2,914	3,517	4,009
Monetary	1,613	1,612	1,664	1,795	1,653	2,019	2,318
Nonmonetary	1,283	1,233	1,386	1,555	1,261	1,498	1,692
Cash crops	314	319	295	228	204	335	388
Food crops	1,893	1,794	1,994	2,297	1,817	2,222	2,554
Monetary	838	808	876	1,032	860	1,053	1,233
Nonmonetary	1,055	985	1,118	1,266	956	1,169	1,321
Livestock	378	408	427	453	474	506	567
Monetary	249	266	276	291	302	321	356
Nonmonetary	129	142	152	162	171	184	211
Forestry	122	130	150	166	170	187	206
Monetary	45	47	54	61	64	71	80
Nonmonetary	77	83	96	104	106	115	126
Fishing	189	194	185	207	250	267	295
Monetary	167	172	164	184	222	238	262
Nonmonetary	21	22	21	23	28	30	33
Industry	672	781	832	951	1,018	1,100	1,182
Mining and quarrying	45	54	63	74	80	88	92
Manufacturing	627	727	769	877	938	1,013	1,090
Formal	420	511	547	635	682	743	814
Informal	207	217	222	241	256	270	276
Public utilities (electricity/water)	97	105	112	123	136	149	166
Construction	474	581	694	790	875	1,055	1,212
Monetary	433	536	644	736	820	995	1,147
Nonmonetary	42	44	50	54	55	60	65
Services	2,749.7	3,093.8	3,525.1	3,995.3	4,469.2	5,049.5	5,551.7
Wholesale and retail trade	738	829	925	1,055	1,077	1,215	1,360
Hotel and restaurants	131	150	195	232	268	305	352
Transport and communication	324	362	430	498	580	698	836
Road	238	262	302	333	372	409	448
Rail	9	11	16	19	17	16	18
Air and support services	31	34	38	43	45	58	72
Communications	45	55	75	104	146	215	298
Owner-occupied dwellings (nonmonetary)	235	280	307	347	390	428	462
Community services	1,321	1,473	1,668	1,863	2,154	2,403	2,542
General government	275	299	348	398	494	525	537
Education	357	403	495	545	642	754	849
Health	139	156	179	197	232	266	272
Rents	280	327	349	383	423	458	487
Miscellaneous	269	288	297	340	363	401	396
Memorandum items:							
Monetary GDP at factor cost	5,329	5,849	6,471	7,254	7,706	8,884	9,902
Nonmonetary GDP at factor cost	1,560	1,557	1,743	1,957	1,707	1,987	2,219
Per capita GDP at factor cost 2/	334	350	363.7	394.2	389.4	434.8	468.7
Population (in millions) 3/	21,509,200	22,128,100	22,746,800	23,365,600	26,326,600	29,806,200	33,000,100

Sources: Ministry of Finance, Planning and Economic Development; and Fund staff estimates.

1/ Fiscal year begins in July.

2/ In thousands of Uganda shillings.

3/ Based on the 1991 and 2002 census and assumed rates of population growth.

Table 2. Uganda: Gross Domestic Product by Industry at Constant 1997/98 Prices, 1997/98–2003/04 1/
(In billions of Uganda shillings)

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
GDP at market prices	7,518	8,113	8,641	9,069	9,688	10,146	10,740
Indirect taxes	630	719	720	729	821	845	904
GDP at factor cost	6,889	7,394	7,921	8,339	8,867	9,301	9,836
Agriculture	2,896	3,064	3,242	3,390	3,523	3,603	3,791
Monetary	1,613	1,719	1,810	1,892	1,999	2,078	2,194
Nonmonetary	1,283	1,345	1,432	1,498	1,524	1,525	1,597
Cash crops	314	343	367	349	375	392	399
Food crops	1,893	2,009	2,132	2,264	2,336	2,365	2,510
Monetary	838	901	954	1,032	1,091	1,132	1,220
Nonmonetary	1,055	1,108	1,178	1,232	1,244	1,233	1,290
Livestock	378	394	409	427	449	469	491
Monetary	249	259	267	278	290	301	313
Nonmonetary	129	135	142	150	159	168	178
Forestry	122	128	144	152	159	165	172
Monetary	45	47	53	58	61	65	68
Nonmonetary	77	81	90	94	97	101	104
Fishing	66	69	75	80	84	88	93
Monetary	45	47	53	58	61	65	68
Nonmonetary	21	21	21	22	23	24	24
Industry	672	767	786	857	906	942	976
Mining and quarrying	45	51	57	63	70	72	71
Manufacturing	627	716	729	794	836	870	905
Formal	420	499	515	570	601	626	655
Informal	207	217	214	224	235	244	250
Public utilities (electricity/water)	97	103	111	120	126	132	141
Construction	474	523	576	587	656	736	793
Monetary	433	480	529	538	605	683	739
Nonmonetary	42	43	47	49	51	52	54
Services	2,750	2,937	3,207	3,386	3,656	3,888	4,135
Wholesale and retail trade	738	816	869	924	985	1,025	1,075
Hotel and restaurants	131	141	195	209	247	265	286
Transport and communication	324	347	385	422	474	545	624
Road	238	253	275	291	312	330	346
Rail	9	11	13	14	14	14	14
Air and support services	31	30	29	28	29	33	39
Communications	45	52	68	90	120	169	225
Owner-occupied dwellings (nonmonetary)	235	255	275	297	318	339	359
Community services	1,321	1,379	1,482	1,533	1,631	1,713	1,791
General government	275	278	299	313	334	311	309
Education	357	372	429	440	474	534	583
Health	139	151	165	159	166	178	178
Rents	280	298	313	328	345	362	379
Miscellaneous	269	280	277	293	313	328	343
Memorandum items:							
Monetary GDP at factor cost	5,329	5,750	6,167	6,495	6,975	7,384	7,826
Nonmonetary GDP at factor cost	1,560	1,643	1,754	1,844	1,892	1,917	2,010

Source: Ministry of Finance, Planning and Economic Development.

1/ Fiscal year begins in July.

Table 3. Uganda: Growth of Gross Domestic Product by Sector at Constant 1997/98 Prices, 1997/98–2003/04 1/
(Annual growth rates, in percent)

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
GDP at market prices	4.7	7.9	6.5	4.9	6.8	4.7	5.9
Indirect taxes	-2.4	14.2	0.2	1.3	12.6	2.9	6.9
GDP at factor cost	5.4	7.3	7.1	5.3	6.3	4.9	5.8
Agriculture	1.9	5.8	5.8	4.6	3.9	2.3	5.2
Monetary	2.5	6.6	5.3	4.5	5.7	3.9	5.6
Nonmonetary	1.2	4.9	6.4	4.6	1.7	0.1	4.7
Cash crops	-2.8	9.3	7.0	-4.9	7.4	4.6	1.8
Food crops	1.6	6.1	6.1	6.2	3.2	1.2	6.1
Monetary	3.0	7.5	5.9	8.2	5.7	3.7	7.7
Nonmonetary	0.7	5.0	6.3	4.6	1.0	-0.9	4.7
Livestock	4.1	4.3	3.9	4.4	5.0	4.6	4.7
Monetary	4.0	4.1	3.3	3.8	4.4	3.9	4.0
Nonmonetary	4.4	4.5	5.1	5.6	6.2	5.8	5.9
Forestry	4.0	5.2	11.9	5.8	4.3	4.3	4.3
Monetary	5.2	6.4	12.3	8.5	6.2	5.6	5.6
Nonmonetary	2.5	4.6	11.7	4.2	3.2	3.5	3.5
Fishing	5.0	4.6	8.5	7.2	5.5	4.9	5.0
Monetary	5.0	6.4	12.3	8.5	6.2	5.6	5.6
Nonmonetary	5.0	0.9	-0.1	4.0	3.5	3.2	3.4
Industry	11.5	14.2	2.5	9.0	5.7	3.9	3.6
Mining and quarrying	27.7	14.5	11.4	10.1	11.1	2.7	-1.2
Manufacturing	14.4	14.2	1.9	8.9	5.3	4.0	4.0
Formal	...	18.8	3.3	10.6	5.4	4.1	4.7
Informal	...	4.9	-1.4	4.9	4.9	3.8	2.3
Public utilities (electricity/water)	7.0	5.3	7.9	8.2	5.4	4.7	6.8
Construction	7.6	10.2	10.1	1.9	11.7	12.2	7.8
Monetary	8.0	10.9	10.2	1.8	12.5	12.9	8.1
Nonmonetary	2.7	3.4	9.2	3.4	3.4	3.5	3.4
Services	6.5	6.8	9.2	5.6	8.0	6.3	6.3
Wholesale and retail trade	6.3	10.5	6.5	6.3	6.7	4.1	4.8
Hotel and restaurants	4.4	7.3	38.6	7.1	18.1	7.5	7.9
Transport and communication	9.4	6.9	11.1	9.6	12.4	14.9	14.4
Road	10.3	6.4	8.5	5.8	7.2	5.6	5.0
Rail	-12.6	17.4	19.3	4.8	1.9	-1.6	5.4
Air and support services	10.5	-4.2	-2.2	-4.4	1.6	16.1	16.0
Communications	11.5	15.2	29.7	32.3	33.9	40.8	33.1
Owner-occupied dwellings (nonmonetary)	7.0	8.5	8.0	8.0	7.0	6.5	6.0
Community services	6.0	4.4	7.5	3.5	6.4	5.0	4.5
General government	5.0	1.1	7.5	4.8	6.7	-7.0	-0.6
Education	5.8	4.1	15.3	2.7	7.7	12.8	9.1
Health	3.1	8.8	9.1	-3.6	4.3	7.5	-0.3
Rents	6.6	6.2	5.0	4.8	5.2	4.9	4.6
Miscellaneous	7.3	4.0	-1.2	6.1	6.6	4.9	4.4
Memorandum items:							
Monetary GDP at factor cost	6.5	7.9	7.2	5.3	7.4	5.9	6.0
Nonmonetary GDP at factor cost	2.0	5.4	6.7	5.1	2.6	1.3	4.9

Sources: Ministry of Finance, Planning and Economic Development; and Uganda Bureau of Statistics.

1/ Fiscal year begins in July.

Table 4. Uganda: Gross Domestic Product by Expenditure at Current Prices, 1997/98–2003/04 1/

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
	(In billions of Uganda shillings)						
GDP at market prices	7,570	8,171	8,961	10,016	10,284	11,859	13,235
GDP at factor cost	6,940	7,453	8,214	9,210	9,412	10,871	12,121
Indirect taxes	630	718	747	805	872	988	1,114
Consumption	7,114	7,482	8,187	9,384	9,702	11,031	12,049
Private	6,140	6,431	6,962	8,000	8,111	9,232	9,971
Public	974	1,051	1,224	1,384	1,591	1,799	2,078
Gross domestic investment	1,245	1,597	1,788	1,859	2,027	2,453	2,873
Private 2/	892	1,154	1,216	1,279	1,479	1,900	2,186
Public	353	443	572	581	548	553	687
Net exports of goods and nonfactor services	-789	-909	-1,014	-1,227	-1,445	-1,625	-1,688
Exports of goods and nonfactor services	730	1,001	1,002	1,194	1,227	1,463	1,919
Imports of goods and nonfactor services	-1,519	-1,910	-2,016	-2,422	-2,672	-3,088	-3,607
	(In percent of GDP)						
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GDP at factor cost	91.7	91.2	91.7	92.0	91.5	91.7	91.6
Indirect taxes	8.3	8.8	8.3	8.0	8.5	8.3	8.4
Consumption	94.0	91.6	91.4	93.7	94.3	93.0	91.0
Private	81.1	78.7	77.7	79.9	78.9	77.8	75.3
Public	12.9	12.9	13.7	13.8	15.5	15.2	15.7
Gross domestic investment	16.4	19.5	20.0	18.6	19.7	20.7	21.7
Private 2/	11.8	14.1	13.6	12.8	14.4	16.0	16.5
Public	4.7	5.4	6.4	5.8	5.3	4.7	5.2
Net exports of goods and nonfactor services	-10.4	-11.1	-11.3	-12.3	-14.0	-13.7	-12.8
Exports of goods and nonfactor services	9.6	12.3	11.2	11.9	11.9	12.3	14.5
Imports of goods and nonfactor services	-20.1	-23.4	-22.5	-24.2	-26.0	-26.0	-27.3

Sources: Ugandan authorities; and Fund staff estimates.

1/ Fiscal year begins in July.

2/ Includes change in stocks.

Table 5. Uganda: Gross Domestic Product by Expenditure at Constant 1997/98 Prices, 1997/98–2003/04 1/

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
(In billions of Uganda shillings)							
GDP at market prices	7,570	8,180	8,641	9,069	9,688	10,146	10,740
GDP at factor cost	6,940	7,461	7,921	8,339	8,867	9,301	9,836
Indirect taxes	630	719	720	729	821	845	904
Consumption	7,114	7,602	7,850	8,139	8,538	8,873	9,270
Private	6,140	6,619	6,771	7,013	7,360	7,619	7,854
Public	974	982	1,079	1,126	1,179	1,254	1,417
Gross domestic investment	1,245	1,419	1,448	1,361	1,496	1,645	1,778
Private 2/	892	1,049	1,021	981	1,134	1,322	1,411
Public	353	370	428	381	361	323	367
Net exports of goods and nonfactor services	-789	-841	-657	-432	-346	-372	-309
Exports of goods and nonfactor services	730	813	959	1,235	1,590	1,532	1,684
Imports of goods and nonfactor services	-1,519	-1,654	-1,617	-1,667	-1,936	-1,903	-1,993
(In percent of GDP)							
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GDP at factor cost	91.7	91.2	91.7	92.0	91.5	91.7	91.6
Indirect taxes	8.3	8.8	8.3	8.0	8.5	8.3	8.4
Consumption	94.0	92.9	90.8	89.8	88.1	87.5	86.3
Private	81.1	80.9	78.4	77.3	76.0	75.1	73.1
Public	12.9	12.0	12.5	12.4	12.2	12.4	13.2
Gross domestic investment	16.4	17.3	16.8	15.0	15.4	16.2	16.6
Private 2/	11.8	12.8	11.8	10.8	11.7	13.0	13.1
Public	4.7	4.5	4.9	4.2	3.7	3.2	3.4
Net exports of goods and nonfactor services	-10.4	-10.3	-7.6	-4.8	-3.6	-3.7	-2.9
Exports of goods and nonfactor services	9.6	9.9	11.1	13.6	16.4	15.1	15.7
Imports of goods and nonfactor services	-20.1	-20.2	-18.7	-18.4	-20.0	-18.8	-18.6

Sources: Ugandan authorities; and Fund staff estimates.

1/ Fiscal year begins in July.

2/ Includes change in stocks.

Table 6. Uganda: Composite Consumer Price Index, July 1997–September 2004
(1997/98 = 100)

		Food crops			Other goods and services			All items		
		Index (weight=.274)	Percent change		Index (weight=.726)	Percent change 1/		Index (weight=1.000)	Percent change	
			Monthly	12-month		Monthly	12-month		Monthly	12-month
1997	July	96.5	-1.5	31.8	99.8	0.3	2.5	99.0	0.1	10.6
	Aug.	93.4	-3.2	29.1	98.9	-0.9	1.0	97.6	-1.4	8.9
	Sep.	97.3	4.2	21.9	98.7	-0.2	-0.5	98.3	0.7	5.9
	Oct.	104.5	7.4	26.2	98.5	-0.3	-1.8	99.9	1.6	5.6
	Nov.	112.9	8.0	36.9	98.3	-0.2	-1.4	101.8	1.9	8.1
	Dec.	113.2	0.2	38.0	99.6	1.4	0.2	102.8	1.0	9.6
1998	Jan.	110.0	-2.8	36.9	100.9	1.3	1.1	103.1	0.2	10.2
	Feb.	101.4	-7.8	26.9	101.4	0.4	3.1	101.4	-1.7	9.8
	Mar.	95.9	-5.4	10.0	100.7	-0.7	2.1	99.5	-1.8	5.0
	Apr.	94.8	-1.2	-4.0	100.8	0.1	1.6	99.3	-0.2	0.4
	May	92.8	-2.0	-11.9	101.2	0.4	2.8	99.2	-0.2	-1.6
	June	87.4	-5.9	-10.9	101.4	0.2	1.9	98.0	-1.2	-0.9
	July	82.9	-5.1	-14.1	100.4	-1.0	0.6	96.2	-1.9	-2.9
	Aug.	82.3	-0.7	-11.9	100.2	-0.2	1.3	95.9	-0.3	-1.8
	Sep.	86.1	4.6	-11.5	100.3	0.1	1.6	96.8	1.0	-1.5
	Oct.	90.2	4.8	-13.7	100.8	0.6	2.4	98.3	1.5	-1.6
	Nov.	89.9	-0.3	-20.3	101.0	0.2	2.8	98.3	0.0	-3.4
	Dec.	95.5	6.2	-15.6	102.1	1.1	2.5	100.4	2.2	-2.3
1999	Jan.	95.0	-0.6	-13.6	102.6	0.5	1.7	100.7	0.2	-2.3
	Feb.	93.9	-1.1	-7.3	105.0	2.4	3.6	102.3	1.6	1.0
	Mar.	96.9	3.1	1.0	104.3	-0.7	3.6	102.5	0.2	3.0
	Apr.	100.5	3.8	6.1	105.5	1.2	4.7	104.3	1.7	5.0
	May	98.4	-2.1	6.0	105.3	-0.2	4.0	103.6	-0.7	4.5
	June	94.9	-3.6	8.6	105.9	0.6	4.5	103.2	-0.4	5.3
	July	93.4	-1.5	12.7	106.2	0.2	5.7	103.1	-0.1	7.2
	Aug.	96.6	3.4	17.4	106.7	0.5	6.4	104.2	1.1	8.7
	Sep.	103.2	6.9	19.9	107.5	0.8	7.2	106.4	2.1	9.9
	Oct.	107.7	4.4	19.4	107.9	0.3	7.0	107.7	1.2	9.6
	Nov.	108.4	0.6	20.5	107.8	-0.1	6.7	107.8	0.1	9.7
	Dec.	111.4	2.7	16.6	108.4	0.6	6.2	108.9	1.0	8.4
2000	Jan.	103.4	-7.1	8.9	107.8	-0.6	5.1	106.7	-2.0	5.9
	Feb.	92.1	-10.9	-1.9	108.5	0.6	3.4	104.5	-2.1	2.1
	Mar.	97.5	5.9	0.7	108.5	0.0	4.0	105.7	1.2	3.1
	Apr.	101.7	4.2	1.2	108.5	0.0	2.8	106.8	1.0	2.4
	May	97.8	-3.8	-0.7	108.5	0.0	3.0	105.9	-0.8	2.2
	June	93.1	-4.7	-1.8	109.0	0.5	2.9	105.2	-0.7	1.9
	July	92.4	-0.8	-1.1	109.8	0.7	3.4	105.7	0.5	2.5
	Aug.	99.3	7.4	2.8	109.7	-0.1	2.9	107.2	1.4	2.9
	Sep.	105.2	6.0	1.9	110.8	1.0	3.0	109.4	2.0	2.9
	Oct.	110.1	4.7	2.2	112.9	1.9	4.6	112.2	2.6	4.2
	Nov.	115.4	4.8	6.5	114.1	1.1	5.9	114.4	2.0	6.1
	Dec.	113.9	-1.3	2.2	113.5	-0.5	4.7	113.5	-0.8	4.2
2001	Jan.	106.4	-6.6	2.8	113.2	-0.3	5.0	111.6	-1.7	4.6
	Feb.	100.3	-5.7	8.9	114.4	1.1	5.4	111.0	-0.5	6.2
	Mar.	100.0	-0.3	2.5	113.9	-0.4	5.0	110.5	-0.5	4.5
	Apr.	103.3	3.3	1.6	114.8	0.8	5.8	112.0	1.4	4.9
	May	99.5	-3.7	1.8	114.9	0.1	5.9	111.3	-0.6	5.1
	June	91.3	-8.2	-2.0	117.6	2.3	7.9	111.3	0.0	5.9
	July	89.0	-2.5	-3.7	117.6	0.0	7.1	110.7	-0.5	4.8
	Aug.	85.9	-3.5	-13.5	116.8	-0.7	6.5	109.4	-1.2	2.0
	Sep.	82.5	-4.0	-21.5	116.8	0.0	5.4	108.6	-0.7	-0.8
	Oct.	83.2	0.8	-24.5	116.9	0.1	3.5	108.7	0.1	-3.1
	Nov.	84.3	1.3	-27.0	116.0	-0.8	1.7	108.2	-0.5	-5.4
	Dec.	81.4	-3.4	-28.5	117.2	1.0	3.3	108.5	0.3	-4.4

Table 6. Uganda: Composite Consumer Price Index, July 1997–September 2004 (concluded)
(1997/98 = 100)

		Food crops			Other goods and services			All items		
		Index (weight=.274)	Percent change		Index (weight=.726)	Percent change 1/		Index (weight=1.000)	Percent change	
			Monthly	12-month		Monthly	12-month		Monthly	12-month
2002	Jan.	78.2	-3.9	-26.5	117.1	-0.1	3.4	107.7	-0.7	-3.5
	Feb.	77.4	-1.0	-22.8	117.5	0.3	2.7	107.8	0.1	-2.9
	Mar.	76.4	-1.3	-23.6	118.0	0.4	3.6	107.9	0.1	-2.3
	Apr.	79.6	4.2	-22.9	117.8	-0.2	2.6	108.6	0.6	-3.1
	May	79.7	0.1	-19.9	117.7	-0.1	2.4	108.6	0.0	-2.4
	June	79.4	-0.4	-13.0	117.7	0.0	0.1	108.5	-0.1	-2.5
	July	76.8	-3.3	-13.7	117.8	0.1	0.2	107.9	-0.6	-2.5
	Aug.	81.2	5.7	-5.4	117.5	-0.2	0.6	108.8	0.8	-0.5
	Sep.	85.8	5.7	3.9	117.7	0.3	0.8	110.1	1.2	1.3
	Oct.	95.8	11.7	15.2	118.5	0.7	1.4	113.0	2.7	3.9
	Nov.	100.9	5.3	19.8	118.6	0.1	2.2	114.3	1.1	5.6
	Dec.	102.1	1.1	25.4	118.7	0.2	1.3	114.7	0.4	5.7
2003	Jan.	99.6	-2.4	27.4	119.9	1.0	2.4	115.0	0.3	6.8
	Feb.	98.8	-0.8	27.6	121.3	1.2	3.2	116.0	0.9	7.6
	Mar.	101.9	3.1	33.4	121.9	0.5	3.3	117.1	0.9	8.5
	Apr.	113.1	11.0	42.1	122.8	0.7	4.2	120.5	2.9	10.9
	May	113.7	0.5	42.7	122.2	-0.5	3.8	120.2	-0.2	10.7
	June	104.8	-7.8	31.9	124.1	1.6	5.4	119.6	-0.5	10.2
	July	102.5	-2.2	33.5	125.3	1.0	6.4	119.9	0.3	11.1
	Aug.	103.2	0.7	27.1	125.2	-0.1	6.6	120.0	0.1	10.3
	Sep.	106.4	3.1	24.1	125.0	-0.2	6.2	120.5	0.4	9.5
	Oct.	108.9	2.3	13.7	125.1	0.1	5.6	121.2	0.6	7.3
	Nov.	109.7	0.7	8.7	124.8	-0.2	5.2	121.2	0.0	6.0
	Dec.	111.0	1.2	8.7	124.9	0.1	5.2	121.4	0.2	5.9
2004	Jan.	100.5	-9.5	0.9	125.5	0.5	4.7	119.6	-1.5	4.0
	Feb.	95.8	-4.7	-3.1	126.8	1.0	4.5	119.3	-0.3	2.9
	Mar.	94.8	-1.0	-7.0	126.8	0.0	4.0	119.2	-0.1	1.8
	Apr.	99.2	4.6	-12.3	127.8	0.8	4.1	121.1	1.6	0.5
	May	102.1	2.9	-10.2	128.3	0.4	5.0	122.1	0.8	1.6
	June	97.1	-4.9	-7.3	128.0	-0.2	3.1	120.6	-1.2	0.9
	July	99.9	2.9	-2.5	129.1	0.9	3.0	122.2	1.3	1.8
	Aug.	111.9	12.0	8.4	129.9	0.6	3.8	125.6	2.8	4.7
	Sep.	115.8	3.5	8.8	129.9	0.0	3.9	126.6	0.8	5.1

Source: Uganda Bureau of Statistics.

1/ Underlying inflation.

Table 7. Uganda: Cultivated Areas and Production of Selected Food Crops, 1997–2003
(Areas in thousands of hectares; and production in thousands of metric tons)

	1997	1998	1999	2000	2001	2002 Est.	2003 Est.
Banana (matooke)							
Area	1,538	1,553	1,570	1,598	1,622	1,648.0	1,656
Production	9,303	9,318	8,949	9,428	9,732	9,888.0	9,605
Cassava							
Area	342	356	375	401	390	398.0	405
Production	2,291	3,204	4,875	4,966	5,265	5,373.0	5,265
Sweet potatoes							
Area	529	544	539	555	572	589.0	609
Production	1,894	2,176	2,354	2,398	2,515	2,592.0	2,558
Irish potatoes							
Area	56	60	64	68	73	78.0	81
Production	360	384	449	478	508	546.0	567
Maize							
Area	598	616	608	629	652	676.0	710
Production	740	924	1,053	1,096	1,174	1,217.0	1,207
Finger millet							
Area	395	401	376	384	389	396.0	400
Production	502	642	606	534	584	590.0	640
Wheat							
Area	5	5	6	7	8	8.0	8
Production	9	9	11	12	14	14.0	14
Pulses 1/							
Area	790	810	835	870	902	940.0	979
Production	346	517	558	574	665	692.0	645
Oil seeds 2/							
Area	445	459	466	499	528	573.0	606
Production	248	309	331	364	392	420.0	430
Total							
Area	4,698	4,804	4,839	5,011	5,136	5,306.0	5,454
Production	15,693	17,483	19,186	19,850	20,849	21,332.0	20,931

Source: Ministry of Finance, Planning and Economic Development.

1/ Consists of beans, field peas, cowpeas, and pigeon peas.

2/ Consists of groundnuts, soya beans, and sim-sim.

Table 8. Uganda: Average Producer Prices for Principal Cash Crops, 1998–2002
(In Uganda shillings per kilogram)

	1998	1999	2000	2001	2002
Coffee					
Robusta	790	600	275	165	400
Arabica	1,770	1,600	1,500	850	1,200
(Bagisu, grade P)	1,740	1,400	725	425	1,000
Cotton					
AR (SAFI)	320	320	350	350	350
BR (Fifi)	160	160	160	160	160
Tea (green leaf)	100	112	112	112	112
Tobacco					
Flue cured	975	975	975	975	975
Fire cured	930	930	930	930	930
Cocoa (wet beans)	500	500	500	500	500

Sources: Ministry of Finance, Planning and Economic Development; Uganda Bureau of Statistics.

Table 9. Uganda: Fish Production by Region, 1997–2002
(Quantity in thousands of metric tons; value in billions of Uganda shillings;
and unit value in Uganda shillings per kilogram)

	1997	1998	1999	2000	2001	2002
Lake Victoria						
Quantity	106.6	105.2	104.2	133.4	131.8	136.1
Value	38.8	38.6	...	...	...	...
Lake Albert						
Quantity	19.1	19.1	29.1	19.4	19.6	19.4
Value	3.6	3.8	...	...	...	...
Albert Nile						
Quantity	3.4	3.5	3.7	...	...	...
Value	0.5	0.4	...	...	...	...
Lake Kyoga						
Quantity	80.1	80.2	81.1	55.9	58.4	55.6
Value	29.0	28.1	...	...	...	...
Lakes Edward and George and Kazinga Channel						
Quantity	6.4	5.6	7.4	5.2	6.4	5.2
Value	3.0	2.6	...	...	...	...
Other waters						
Quantity	3.7	3.5	4.3	5.6	4.5	5.6
Value	0.6	0.5	...	...	...	...
Total						
Quantity	219.3	217.1	230.0	220.0	221.0	222.0
Value	75.5	74.0	...	...	...	...
Average unit value	344.3	341.3	...	...	...	...

Sources: Ministry of Finance, Planning, and Economic Development; Uganda Bureau of Statistics.

Table 10. Uganda: Electricity Capacity and Generation, 1997–2002

	1997	1998	1999	2000	2001	2002
(In megawatts)						
Installed capacity	183.0	183.0	183.0	263.0	263.0	263.0
Owen falls	180.0	180.0	180.0	260.0	260.0	260.0
Thermal	2.0	2.0	2.0	2.0	2.0	2.0
Other	1.0	1.0	1.0	1.0	1.0	1.0
(In gigawatt-hours, unless otherwise specified)						
Units generated						
Hydroelectric	1,217.3	1,232.4	1,340.5	1,533.5	1,575.4	1,700.5
Thermal	1.2	1.2	1.2	1.2	1.2	1.2
Total	1,218.5	1,233.6	1,341.7	1,534.7	1,576.6	1,701.7
Transit and distribution losses 1/	340.1	...	...	...	...	...
Units accounted for by consumption	878.4	...	...	...	...	...
Maximum demand (megawatts)	178.6	179.8	179.8	246.0	327.5	302.8
Annual load factor (percent) 2/	77.9	78.3	58.9	67.4	71.4	80.8

Source: Ministry of Finance, Planning and Economic Development.

1/ Including units unaccounted for by consumption.

2/ The load factor is the ratio of kilowatt-hours produced to the maximum demand during the period.

Table 11. Uganda: Electricity Sales by Uganda Electricity Board, 1997–2002

Category of Consumer	1997	1998	1999	2000	2001	2002
(Number of units sold, in millions of kilowatt-hours)						
Domestic tariff	344	317	307	312	354	476
Commercial (security lighting)	...	...	107	122	175	159
Street lighting	2	2	2	2	3	3
Industrial	159	154	163	407	381	473
Kenya bulk supply	148	136	153	251	120	240
Tanzania bulk supply	20	21	21	230	22	24
Rwanda bulk supply	2	1	0	0	3	1
Total	675	631	753	1,324	1,058	1,376
(Revenue collected, in millions of Uganda shillings)						
Domestic tariff	27,657	26,721	18,766	30,053	56,328	83,851
Commercial (security lighting)	23,094	28,805	10,414	17,371	27,760	28,741
Street lighting	232	170	231	294	405	447
Industrial	15,736	14,907	12,251	45,853	60,592	76,579
Kenya bulk supply	10,097	11,790	16,616	27,850	15,117	24,487
Tanzania bulk supply	2,156	2,711	2,633	2,795	3,101	3,439
Rwanda bulk supply	128	132	5	14	385	188
Total	79,100	85,236	60,916	124,230	163,688	217,732

Source: Ministry of Finance, Planning and Economic Development.

Table 12. Uganda: Pump Prices for Petroleum Products, 1997–2004 1/
(Kampala pump prices; in Uganda shillings per liter)

		Motor Spirit Premium (PMS)	Diesel (AGO)	Kerosene (BIK)
1997	July	1,130	1,020	840
	September	1,170	1,060	850
	October	1,190	1,100	850
	November	1,200	1,120	820
1998	January	1,170	1,000	810
	July	1,100	980	760
	October	1,130	960	740
	November	1,130	960	740
	December	1,180	940	820
1999	January	1,150	920	780
	July	1,200	980	800
	August	1,280	1,020	890
	September	1,280	1,020	890
	October	1,325	1,075	925
	November	1,295	1,035	875
	December	1,295	1,065	895
2000	January	1,305	1,095	905
	February	1,320	1,095	935
	March	1,340	1,115	935
	April	1,310	1,070	900
	May	1,375	1,125	935
	June	1,410	1,150	940
	July	1,450	1,160	970
	August	1,490	1,210	1,010
	September	1,536	1,288	1,068
	October	1,560	1,369	1,179
	November	1,565	1,369	1,179
	December	1,528	1,353	1,204
	2001	January	1,481	1,293	1,172
February		1,470	1,270	1,160
May		1,413	1,221	1,160
June		1,520	1,300	1,160
November		1,508	1,288	1,148
December		1,480	1,260	1,120
June		1,503	1,269	1,129
July		1,530	1,280	1,140

Table 12. Uganda: Pump Prices for Petroleum Products, 1997–2004 (concluded) 1/
(Kampala pump prices; in Uganda shillings per liter)

		Motor Spirit Premium (PMS)	Diesel (AGO)	Kerosene (BIK)
2002	January	1,480	1,260	1,120
	February	1,480	1,260	1,120
	March	1,480	1,260	1,120
	April	1,480	1,260	1,120
	May	1,480	1,260	1,120
	June	1,503	1,269	1,129
	July	1,530	1,280	1,140
	August	1,530	1,280	1,140
	September	1,530	1,280	1,140
	October	1,530	1,280	1,140
	November	1,530	1,280	1,140
	December	1,530	1,280	1,140
2003	January	1,580	1,330	1,190
	February	1,648	1,398	1,243
	March	1,722	1,477	1,302
	April	1,740	1,500	1,320
	May	1,725	1,485	1,305
	June	1,750	1,498	1,300
	July	1,770	1,510	1,300
	August	1,749	1,496	1,286
	September	1,740	1,490	1,280
	October	1,740	1,490	1,280
	November	1,707	1,457	1,247
	December	1,640	1,390	1,180
2004	January	1,698	1,448	1,238
	February	1,790	1,540	1,330
	March	1,800	1,550	1,330
	April	1,825	1,575	1,335
	May	1,878	1,600	1,360
	June	1,890	1,600	1,360
	July	1,758	1,418	1,260
	August	1,690	1,400	1,260
	September	1,697	1,407	1,267

Source: Ministry of Energy.

1/ Prices quoted are average pump prices.

Table 13. Uganda: Index of Industrial Production, Annual Summary for Groups and Subgroups, 1997–2003

Group/Subgroup	No. of Estabs 2001	No. of Estabs 2002	Weight	1997	1998	1999	2000	2001	2002	2003
Food processing	50	46	39.3	100.0	110.0	123.6	118.2	131.9	135.3	136.1
Meat and meat products	3	3	0.7	93.0	109.5	99.4	95.0	90.0	93.1	108.1
Fish and fish products	5	5	3.4	76.0	123.8	140.9	155.7	263.0	254.7	229.2
Dairy products	7	7	2.0	93.0	100.8	78.8	71.7	62.1	57.8	55.7
Edible oil	5	5	4.0	96.3	112.6	132.3	145.0	156.1	142.4	157.0
Grain milling	6	5	0.9	77.4	112.4	113.0	190.5	185.7	176.4	211.0
Bakeries	10	8	3.8	78.6	114.9	98.5	151.2	89.1	81.0	87.3
Sugar and jaggery	3	3	8.4	105.2	104.3	129.6	139.2	137.4	169.9	180.3
Coffee processing	1+	1+	11.1	120.8	112.8	137.9	79.1	108.8	108.0	98.0
Tea processing	1+	1+	2.7	81.8	102.6	96.0	113.5	125.9	128.8	143.3
Animal feeds	7	6	0.9	121.9	86.5	83.4	89.2	65.9	90.1	120.7
Other food processing	4	4	1.4	79.7	102.5	120.4	100.1	154.7	109.4	
Drinks and tobacco	11	11	18.6	94.6	104.8	112.3	116.0	119.0	122.5	137.3
Alcohol and beverages	2	2	9.6	92.2	107.7	116.7	129.9	122.7	119.0	127.0
Soft drinks	7	7	5.2	95.2	105.3	119.0	121.6	152.0	177.0	207.5
Cigarettes	2	2	3.8	99.9	96.9	91.7	73.6	66.0	56.6	64.6
Textiles clothing and footwear	8	7	4.6	82.5	128.4	185.4	178.9	166.3	165.9	208.2
Textiles and garments	5	4	2.7	92.9	105.2	114.4	80.0	71.6	63.5	100.5
Cotton ginning	1+	1+	1.2	50.0	151.6	290.4	335.5	305.9	317.5	354.3
Leather and footwear	3	3	0.7	119.6	162.6	210.0	188.4	199.8	218.4	252.8
Paper and printing	14	13	6.2	94.2	115.3	134.1	163.5	183.8	156.7	198.2
Paper products	7	6	1.4	99.3	103.9	121.6	169.4	182.7	226.6	233.1
Printing and publishing	7	7	4.8	92.4	116.8	135.3	155.5	183.3	135.8	185.1
Chemicals paint and soap	19	18	8.2	95.7	109.4	125.3	124.8	138.2	132.0	150.0
Chemicals	2	2	0.9	99.3	105.7	134.3	115.1	100.1	107.7	133.0
Paint	4	4	0.9	90.6	102.0	108.7	117.7	117.5	87.8	90.2
Soap and detergents	9	9	4.8	99.8	111.3	132.4	143.6	163.9	156.4	181.6
Foam products	4	3	1.7	84.7	109.5	108.9	80.4	108.8	96.3	102.4
Bricks and cement	11	10	5.6	100.8	109.0	118.6	136.2	148.6	167.9	158.5
Bricks, tiles, etc.	8	7	1.2	99.4	109.3	118.1	125.3	122.2	161.3	140.1
Cement and lime	3	3	4.4	101.2	108.9	118.8	139.2	155.8	169.7	163.6
Metal products	16	15	10.5	88.5	111.6	126.6	155.9	204.9	202.2	172.9
Roofing products	4	4	5.8	88.8	109.5	129.0	119.6	121.9	139.9	164.2
Other metal products	12	11	4.8	88.1	114.1	123.7	199.9	291.8	277.5	183.4
Miscellaneous	15	15	7.0	105.2	101.8	98.1	98.0	103.7	152.1	156.8
Vehicle parts and accessories	2	2	0.7	...	101.8	99.7	99.8	105.9	110.5	101.8
Plastic products	12	12	3.2	99.5	113.3	127.8	127.0	153.7	224.0	268.6
Electrical products	1	1	3.1	123.6	89.6	66.5	67.1	53.0	86.4	52.4
Index—all items	144	135	100	96.7	109.7	123.4	127.5	141.4	145.5	150.9
Annual percentage change	...	...	...	...	13.4	12.5	3.3	11.0	2.9	3.7

Note: Aggregate data from the respective organizations that compile the said data for the different industries are used. Figures for 2003 are estimates based on figures for January to September 2003.

Source: Ministry of Finance, Planning and Economic Development.

Table 14. Uganda: Production of Selected Manufactured Commodities, 1997–2002

Commodity	Units	1997	1998	1999	2000	2001	2002
Beer	(thousands of liters)	89,639	108,760	117,845	10,087	107,914	98,911.0
Uganda waragi	(thousands of liters)	606	210	250	350	990	1,984.0
Soft drinks	(thousands of liters)	65,364	68,699	80,836	72,623	81,680	95,598.0
Biscuits	Tons	4,504	5,376	4,282	5,872	4,843	3,526.0
Cigarettes	(million sticks)	1,844	1,846	1,602	1,344	1,220	1,092.0
Cotton and rayon	(thousands of square meters)	8,825	5,206	6,860	4,743	5,603	7,077.0
Ball pens	(thousands of packs)	189	225	182	447	14	...
Hoes	(thousands of pieces)	764	...	...	...	...	...
Number plates	(pairs)	38,523	13,381	19,059	16,529	27,234	...
Blankets	(thousands of pieces)	28	177	215	96	66	...
Bed sheets	(pairs)	371,898	525,218	535,720	592,547	521,795	568,928.0
Foam mattresses	(tons)	3,086	3,708	3,548	3,548	3,083	3,540.0
Spring mattresses	Number	521	743	684	864	763	...
Garments	thousands of dozens	1,260	681	219	13,577	43,024	42,235.0
Sugar	(tons)	103,213	102,667	126,936	222,888	130,326	167,729.0
Soap	(tons)	62,002	72,827	83,776	75,204	90,807	92,247.0
Exercise books	thousands of gross	184	144	156	343	183	553.0
Envelopes	thousands of pieces	4,955	1,545	2,621	3,977	7,357	...
Matches (small size)	(cartons)	...	...	3,489	...	...	...
Matches (large size)	(cartons)	...	...	...	...	...	...
Toilet paper	thousands of dozens	743	774	995	826	1,485	9,081.0
Plywood	(thousands of cubic meters)	...	...	...	...	...	...
Corrugated cardboard boxes	(square meters)	1,756	2,471	3,020	4,564	7,160	7,137.0
Steel ingots	(tons)	...	...	...	...	...	...
Corrugated iron sheets	(tons)	29,710	28,418	39,414	34,690	58,054	47,247.0
Miscellaneous metal products	(tons)	14,042	16,089	17,419	n.a	18,970	...
Twines and cords	(tons)	32	30	27	21	25	2.0
Cement	(tons)	289,560	321,329	347,274	367,470	431,084	505,959.0
Clay bricks, tiles, etc.	(tons)	17,427	32,054	32,504	20,744	29,570	34,639.0
Cement blocks and tiles	(tons)	6,086	4,783	6,991	9,986	6,352	7,762.0
Paints	(thousands of liters)	2,355	2,446	2,450	2,792	2,424	2,384.0
Edible oil and fat	(tons)	27,532	28,276	40,516	42,834	47,970	50,604.0
Soya foods	(tons)	100	163	216	191	241	190.0
Curry powder	(tons)	17	13	4	7	8	4.0
Animal feeds	(tons)	25,443	17,164	17,474	31,687	13,106	30,455.0
Footwear	(thousands of pairs)	1,274	1,471	1,725	1,696	1,979	978.0
Fishnets	(thousands of pieces)	239	288	244	311	431	376.0
Jerry cans (plastics)	(thousands of dozens)	5,587	5,197	6,561	5,284	5,943	6,564.0
Table ware (plastics)	(thousands of dozens)	560	598	468	390	431	465.0
Bicycle tires and tubes	(thousands of pieces)	...	...	...	...	...	...
Motor batteries	(pieces)	56,434	64,243	63,214	61,068	67,221	69,358.0
Oxygen	Cubic meters	105	151	163	147	49	142.0
Acetylene gas	Cubic meters	16	21	32	28	13	27.0
Toothbrush	(thousands of packs)	239	352	348	443	15	...
Meat	(tons)	...	...	...	...	...	...
Processed milk	(thousands of liters)	27,468	32,405	26,494	19,303	18,322	17,522.0
Roasted and ground coffee	(tons)	41	42	24	17	20	30.0
Wheat flour	(tons)	804	18,038	14,454	12,187	51,992	52,726.0
Sweets and toffees	(tons)	120	748	639	643	426	1,784.0
Electricity	(million kilowatts)	1,219	1,234	1,342	1,639	...	...

Source: Uganda Bureau of Statistics.

Table 15. Uganda: Average Market Prices for Selected Consumer Goods, 1997–2002
(In Uganda shillings, as at June)

	Unit	1997	1998	1999	2000	2001	2002
Banana (matooke)	1 kilogram	156.3	142.2	203.0	181.0	170.0	107.3
Maize meal	1 kilogram	777.8	744.4	702.8	775.0	666.7	616.7
Groundnuts	1 kilogram	1,788.9	1,505.6	1,488.9	1,488.9	1,500.0	1,166.7
Sugar	1 kilogram	1,033.3	1,066.3	1,177.8	1,150.0	1,500.0	1,200.0
Dry fish	1 kilogram	2,275.0	...	...	2,080.3	3,260.9	...
Sweet potatoes	1 kilogram	277.8	135.1	276.2	218.3	157.0	182.8
Dry beans	1 kilogram	1,215.0	886.1	811.1	650.0	733.3	666.7
Dry cassava flour	1 kilogram	427.8	533.3	413.9	466.7	491.7	375.0
Green vegetables	1 kilogram	391.5	...	...	700.8	744.9	713.3
Bread	1 kilogram	1,400.0	1,422.2	1,400.0	1,533.4	800.0	783.3
Tea	1 kilogram	5,666.0	...	...	10,000.0	10,000.0	10,000.0
Salt	1 kilogram	366.7	461.1	496.5	466.6	466.6	450.0
Cooking oil	300 milliliters	538.7	530.5	616.7	600.0	550.0	583.3
Milk	1 liter	716.7	733.3	700.0	716.7	700.0	800.0
Rice	1 kilogram	950.0	966.7	1,088.9	983.3	1,050.0	1,000.0
Tomatoes	1 kilogram	892.5	582.9	645.2	525.0	538.0	538.9
Onions	1 kilogram	1,069.0	2,007.4	907.1	1,207.8	969.3	1,155.0
Meat	1 kilogram	2,366.7	2,255.5	2,338.9	2,266.7	2,250.0	2,316.7
Native beer	1 beer bottle	190.0	...	...	352.7	...	...
Bottled beer	1 beer bottle	1,016.7	1,000.0	...	1,016.7	1,116.7	1,316.7
Cigarettes	1 packet	983.3	...	...	1,458.3	1,400.0	1,775.0
Charcoal	1 kilogram	194.7	184.8	176.2	167.3	219.0	163.8
Paraffin	1 liter	1,022.2	1,026.7	1,000.0	1,302.8	652.0	1,128.0
Soap	1 kilogram	940.7	985.2	1,059.3	1,235.0	1,260.6	1,166.6
Sheet (American)	1 meter	...	...	...	...	...	...
Cotton blankets	One	5,360.0	...	...	6,250.0	6,375.0	6,600.0
Nytil material	1 meter	1,380.0	...	...	1,460.0	1,740.0	1,680.0

Source: Ministry of Finance, Planning and Economic Development.

Table 16. Uganda: Fiscal Operations of the Central Government, 1997/98–2003/04 1/

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In billions of Uganda shillings, unless otherwise noted)							
Total revenue and grants	1,199	1,358	1,575	1,914	1,969	2,264	2,939
Revenue	801	951	1,059	1,128	1,254	1,434	1,669
Tax	754	888	928	1,029	1,156	1,338	1,550
Nontax	47	63	131	99	98	96	119
Grants	398	407	516	786	715	830	1,270
Import support	193	162	240	367	364	469	801
Project grants	204	245	275	419	351	361	468
Expenditures and lending	1,281	1,579	2,389	2,180	2,514	2,775	3,170
Current expenditure	728	870	977	1,138	1,420	1,565	1,865
Wages and salaries	256	341	374	434	549	611	683
<i>Of which: defense</i>	30	68	101	116	118	125	128
Poverty Action Fund (PAF) 2/	90	101	111	133	213	235	269
Interest payments	75	75	95	125	141	173	262
Domestic	29	21	30	57	92	118	193
External	46	54	66	68	49	55	69
Transfers to the URA	25	30	32	35	45	63	59
Other	372	424	476	544	685	719	861
<i>Of which: defense</i>	75	113	69	70	92	121	171
Poverty Action Fund (PAF) 2/	34	67	81	118	147	155	178
Development expenditures	502	591	783	939	979	1,168	1,189
External	413	446	520	604	547	672	750
Domestic	90	145	263	335	431	496	439
<i>Of which: Defense</i>	8	7	4	6	6	10	8
Poverty Action Fund (PAF) 2/	18	64	111	164	230	256	283
Net lending and investment 3/	3	2	392	-27	5	-13	34
Domestic arrears repayment	47	116	146	130	110	54	47
Other 4/	0	0	91	0	0	0	34
Overall balance							
Including grants	-82	-221	-815	-265	-545	-511	-230
Excluding grants	-479	-628	-1,330	-1,052	-1,260	-1,341	-1,500
Domestic balance 5/	-21	-129	-744	-380	-663	-614	-681
Financing	83	216	860	351	421	494	199
External financing (net)	196	231	286	362	476	513	299
Official disbursements	256	332	333	429	557	617	427
Import support	52	87	58	149	349	360	57
Project loans	204	245	275	281	208	257	370
Amortization (-)	-78	-103	-124	-126	-123	-143	-144
Exceptional financing	18	17	34	59	42	38	15
Other	0	-15	43	0	0	0	0
Domestic financing (net)	-113	-14	574	-11	-55	-19	-99
Bank financing	-67	1	542	46	21	-92	-206
Nonbank financing	-46	-15	31	-57	-76	73	107
Errors and omissions	-1	5	-45	-86	124	16	31

Table 16. Uganda: Fiscal Operations of the Central Government, 1997/98–2003/04 (concluded) 1/

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	(In percent of GDP)						
Total revenue and grants	15.8	16.6	17.6	19.1	19.1	19.1	22.2
Revenue	10.6	11.6	11.8	11.3	12.2	12.1	12.6
Grants	10.0	10.9	10.4	10.3	11.2	11.3	11.7
Expenditures and lending	16.9	19.3	26.7	21.8	24.4	23.4	23.9
Current expenditure	9.6	10.7	10.9	11.4	13.8	13.2	14.1
Wages and salaries	3.4	4.2	4.2	4.3	5.3	5.2	5.2
Interest payments	1.0	0.9	1.1	1.2	1.4	1.5	2.0
Development expenditures	6.6	7.2	8.7	9.4	9.5	9.8	9.0
External	5.5	5.5	5.8	6.0	5.3	5.7	5.7
Domestic	1.2	1.8	2.9	3.3	4.2	4.2	3.3
Net lending	0.0	0.0	4.4	-0.3	0.0	-0.1	0.3
Domestic arrears repayment	0.6	1.4	1.6	1.3	1.1	0.5	0.4
Overall balance							
Including grants	-1.1	-2.7	-9.1	-2.6	-5.3	-4.3	-1.7
Excluding grants	-6.3	-7.7	-14.8	-10.5	-12.2	-11.3	-11.3
Domestic balance	-0.3	-1.6	-8.3	-3.8	-6.4	-5.2	-5.1
Financing	1.1	2.6	9.6	3.5	4.1	4.2	1.5
External financing (net)	2.6	2.8	3.2	3.6	4.6	4.3	2.3
Domestic bank financing	-0.9	0.0	6.1	0.5	0.2	-0.8	-1.6
Domestic nonbank financing	-0.6	-0.2	0.3	-0.6	-0.7	0.6	0.8

Source: Ministry of Finance, Planning and Economic Development

1/ Fiscal year begins in July.

2/ From 2000/01 onwards, the Poverty Action Fund (PAF) becomes the monitored measure of poverty-reducing expenditure.

3/ Excludes the face value of the recapitalization bonds issued to the Bank of Uganda (BOU) and to the Uganda Commercial Bank. However, full provision is made for the interest costs and amortization associated with these bonds issues. Nonetheless, the 1999/2000 figure includes U Sh 384.5 billion for a treasury note that was redeemed to recapitalize the BOU.

4/ In 1999/2000, includes U Sh 91.2 billion on account of the principal from the bank recapitalization operations. In 2003/04, includes U Sh 34.5 billion of nonbudgeted expenditures financed through deferred accounts at the BOU.

5/ Domestic revenues less expenditures, excluding external interest due and externally financed development expenditures.

Table 17. Uganda: Central Government Revenue, 1997/98–2003/04 1/

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
(In billions of Uganda shillings)							
Total revenue	801	951	1,059	1,128	1,254	1,434	1,669
Tax revenue	754	888	928	1,029	1,156	1,338	1,550
Taxes on international trade	78	97	105	141	117	134	135
Export taxes 2/	0	0	0	0	0	1	1
Import taxes 3/ 4/	78	96	105	141	117	133	134
Excise taxes	304	323	328	325	361	389	447
Petroleum products 3/	188	193	197	199	222	241	270
Other	116	130	131	126	139	148	177
Non-oil imports	0	0	24	24	23	35	49
Domestic goods	0	104	108	101	116	113	129
Income tax	125	170	182	224	284	350	437
Pay as you earn	48	68	83	104	137	168	200
Corporate tax	29	44	41	54	69	84	122
Other 5/	0	58	58	66	77	97	115
Value-added tax 6/	247	299	313	339	393	466	531
Imports	145	181	179	199	218	251	333
Domestic	116	140	164	175	213	244	241
Goods	65	75	76	86	108	123	128
Services	51	65	88	89	106	121	113
Refunds	-14	-23	-30	-35	-39	-30	-43
Nontax revenue	47	63	81	53	98	96	119
URA	44	47	49	46	57	71	92
Traffic Act	20	17	18	19	23	30	43
Import Commission	17	21	23	18	22	25	31
Other 7/	6	9	8	9	12	15	18
Non-URA	3	15	32	7	41	25	27
(In percent of total revenue)							
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax revenue	94.1	93.4	87.7	91.3	92.2	93.3	92.9
Taxes on international trade	9.8	10.2	9.9	12.5	9.3	9.3	8.1
Export taxes 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Import taxes 3/ 4/	9.7	10.1	9.9	12.5	9.3	9.3	8.0
Excise taxes	37.9	34.0	31.0	28.8	28.8	27.1	26.8
Petroleum products 3/	23.5	20.3	18.6	17.7	17.7	16.8	16.2
Other	14.4	13.6	12.4	11.1	11.1	10.3	10.6
Non-oil imports	0.0	0.0	2.2	2.2	1.8	2.4	2.9
Domestic goods	0.0	11.0	10.2	9.0	9.3	7.9	7.7
Income tax	15.6	17.9	17.2	19.9	22.7	24.4	26.2
Pay as you earn	6.0	7.1	7.9	9.2	10.9	11.7	12.0
Corporate tax	3.6	4.7	3.9	4.8	5.5	5.9	7.3
Other 5/	0.0	6.1	5.4	5.9	6.2	6.8	6.9
Value-added tax 6/	30.8	31.4	29.6	30.1	31.3	32.5	31.8
Imports	18.0	19.0	16.9	17.7	17.4	17.5	19.9
Domestic	14.5	14.8	15.5	15.5	17.0	17.0	14.4
Goods	8.1	7.9	7.2	7.6	8.6	8.6	7.7
Services	6.4	6.8	8.3	7.9	8.4	8.5	6.8
Refunds	-1.7	-2.4	-2.8	-3.1	-3.1	-2.1	-2.5
Nontax revenue	5.9	6.6	7.7	4.7	7.8	6.7	7.1
URA	5.5	5.0	4.6	4.0	4.5	5.0	5.5
Traffic Act	2.5	1.8	1.7	1.7	1.9	2.1	2.6
Import Commission	2.2	2.2	2.1	1.6	1.7	1.8	1.9
Other 7/	0.8	0.9	0.8	0.8	0.9	1.1	1.1
Non-URA	0.4	1.6	3.0	0.6	3.3	1.7	1.6

Source: Ministry of Finance, Planning and Economic Development.

1/ Fiscal year begins in July.

2/ Includes windfall coffee tax and hides and skins levy.

3/ The import duty on petroleum products was converted to a specific excise tax on March 31, 1998.

4/ Reflects only import duties; excludes excises and value-added tax charged on imported goods, as well as the commission on imports.

5/ Includes presumptive tax, withholding tax on domestic transactions, withholding tax on imports, rental income tax, tax on bank interest and

6/ The value-added tax was introduced on July 1, 1996 and replaced the sales tax and commercial transactions levy.

7/ Includes the drivers permits, temporary road, licenses and the stamp duty and embossing fees.

Table 18. Uganda: Functional Classification of Central Government Domestic Expenditure, 1997/98–2003/04 1/ 2/

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
(In billions of Uganda shillings)							
Total domestic expenditure	817.4	1,023.5	1,236.7	1,495.7	1,895.0	2,108.7	2,325.8
Current expenditure	735.8	878.8	991.5	1,151.1	1,436.3	1,595.7	1,853.3
Security 3/	119.2	195.7	186.6	202.9	232.0	288.0	327.2
Roads and works 4/	12.1	26.3	30.1	35.9	45.9	40.3	44.5
Agriculture 5/	5.6	5.0	9.0	7.4	10.5	12.2	13.2
Education 6/	205.3	239.3	258.3	286.4	359.6	396.4	436.5
Health 7/	47.0	58.2	63.1	88.6	139.8	150.6	168.9
Law and order 8/	69.9	66.8	83.0	87.5	114.6	124.1	181.8
Economic functions and social 9/	10.4	7.1	11.9	15.1	23.7	27.8	31.1
Public administration 10/	199.6	201.7	240.0	281.6	333.7	347.7	349.4
Other	66.7	78.9	109.5	145.7	176.5	208.5	300.6
Domestic development expenditure	81.6	144.7	245.3	344.6	458.7	513.0	472.5
Security 3/	1.5	7.4	4.4	5.6	5.8	8.9	8.5
Roads and works 4/	27.9	36.8	70.6	91.9	110.8	114.6	101.9
Agriculture 5/	3.6	4.7	9.1	14.4	31.9	36.9	32.6
Education 6/	7.1	35.8	66.8	86.6	96.3	95.4	80.8
Health 7/	7.2	10.0	16.8	21.5	23.1	39.3	38.8
Law and order 8/	2.9	6.6	7.5	10.1	12.7	21.5	15.3
Economic functions and social 9/	23.2	20.9	45.0	60.0	98.7	124.1	92.2
Public administration 10/	4.4	10.2	11.4	20.0	32.1	18.6	16.4
Other	3.8	12.3	13.7	34.6	47.4	53.6	85.9
(In percent of total expenditure)							
Total domestic expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Current expenditure	90.0	85.9	80.2	77.0	75.8	75.7	79.7
Security 3/	14.6	19.1	15.1	13.6	12.2	13.7	14.1
Roads and works 4/	1.5	2.6	2.4	2.4	2.4	1.9	1.9
Agriculture 5/	0.7	0.5	0.7	0.5	0.6	0.6	0.6
Education 6/	25.1	23.4	20.9	19.1	19.0	18.8	18.8
Health 7/	5.7	5.7	5.1	5.9	7.4	7.1	7.3
Law and order 8/	8.6	6.5	6.7	5.9	6.0	5.9	7.8
Economic functions and social 9/	1.3	0.7	1.0	1.0	1.2	1.3	1.3
Public administration 10/	24.4	19.7	19.4	18.8	17.6	16.5	15.0
Other	8.2	7.7	8.9	9.7	9.3	9.9	12.9
Domestic development expenditure	10.0	14.1	19.8	23.0	24.2	24.3	20.3
Security 3/	0.2	0.7	0.4	0.4	0.3	0.4	0.4
Roads and works 4/	3.4	3.6	5.7	6.1	5.8	5.4	4.4
Agriculture 5/	0.4	0.5	0.7	1.0	1.7	1.8	1.4
Education 6/	0.9	3.5	5.4	5.8	5.1	4.5	3.5
Health 7/	0.9	1.0	1.4	1.4	1.2	1.9	1.7
Law and order 8/	0.4	0.6	0.6	0.7	0.7	1.0	0.7
Economic functions and social 9/	2.8	2.0	3.6	4.0	5.2	5.9	4.0
Public administration 10/	0.5	1.0	0.9	1.3	1.7	0.9	0.7
Other	0.5	1.2	1.1	2.3	2.5	2.5	3.7

Source: Ministry of Finance, Planning and Economic Development.

1/ Fiscal year begins in July.

2/ Sectoral data from Medium Term Economic Framework (MTEF), measured as cash released to all central and local government spending units; excludes net lending repayments to the central government and clearance of arrears.

3/ Includes defense, and ISO/ESO.

4/ Comprises works, housing, and communications; district road maintenance; and urban road maintenance.

5/ Comprises agriculture, animal industry and fisheries; the National Research Organization (NARO); district agricultural extension conditional grants; and national agricultural advisory services.

6/ Comprises Uganda Management Institute; Makerere University; Mbarara University; Institute of Teachership Education, Kyambogo; district primary education, including school facility grant; district secondary education; district tertiary institutions; district health training schools; Makerere University Business School; education service commission; and education and sports.

7/ Comprises Ministry of Health; Mulago hospital; Butabika hospital; district NGO hospital/primary health care; district primary health care; district hospitals; district referral hospitals; Health Service Commission; and Uganda AIDS Commission.

8/ Comprises Ministry of Internal Affairs; Uganda police; Uganda prisons; DPP; Justice Court Awards (Statutory); Justice Attorney General; the judiciary; Judicial Service Commission and the Law Reform Commission.

9/ Comprises Ministry of Energy and Minerals; Ministry of Tourism, Trade, and Industry; Ministry of Water, Lands, and Environment; Ministry of Gender, Labor, and Social Development; Office of Prime Minister; Ministry of Finance Planning and Economic Development; District Equalisation Grant; Local Government Development Program; and Local Government Development; District Functional Adult Literacy Grant; nonsectoral conditional grant; and Dutch district development grants.

10/ Comprises President's Office; State House; Prime Minister; Ministries of Public Service, Foreign Affairs, and Finance, Planning and Economic Development; local government; Public Service Pension; Public Service Commission; Uganda Revenue Authority; Missions abroad; Mass Mobilisation; specified officers; Parliamentary Commission; Local Government; Finance Commission; Uganda Human Rights Commission; Electoral Commission; urban authorities; other districts; and unconditional grants.

Table 19. Uganda: Monetary Survey at Current Exchange Rates, June 1997–June 2004
(In billions of Uganda shillings; end of period)

	1997 June	1998 June	1999 June	2000 June	2001 June	2002 June	2003 June	2004 June
Net foreign assets	377.0	639.2	782.2	906.3	1,211.0	1,552.7	2,101.3	2,362.0
Bank of Uganda	231.7	452.0	585.0	614.8	792.3	1,090.6	1,500.5	1,678.3
Commercial banks	145.3	187.2	197.2	291.5	418.7	462.1	600.8	683.7
Net domestic assets	432.1	380.8	378.4	440.9	372.6	372.7	272.1	231.1
Domestic credit	270.4	292.0	467.7	1,012.4	1,106.8	1,151.4	1,246.2	1,189.6
<i>Of which</i> : claims on the government (net)	-61.4	-128.5	-127.9	414.6	460.6	482.0	390.4	184.2
claims on the private sector	331.7	420.5	546.3	580.4	634.9	661.7	848.6	991.5
Other items (net)	-142.3	-157.4	-282.9	-523.2	-635.1	-615.4	-640.2	-358.0
Money and quasi-money (M3)	809.1	1,020.0	1,160.6	1,347.2	1,583.6	1,925.4	2,373.4	2,593.2
M2	705.6	873.1	952.8	1,036.3	1,193.4	1,490.6	1,749.2	1,941.5
Currency in circulation	220.8	239.5	284.7	306.7	350.1	407.2	461.4	528.7
Demand deposits	263.9	324.9	360.1	413.1	482.9	617.5	725.1	814.0
Time and savings deposits	220.8	308.7	296.9	305.8	352.5	460.1	558.7	596.7
Certificates of deposit	--	--	11.1	10.8	7.9	5.8	4.0	2.0
Foreign exchange deposits	103.5	146.9	207.8	310.8	390.2	434.8	624.2	651.7

Source: Bank of Uganda.

Table 20. Uganda: Summary Accounts of the Bank of Uganda, June 1997–June 2004
(In billions of Uganda shillings; end of period)

	1997 June	1998 June	1999 June	2000 June	2001 June	2002 June	2003 June	2004 June
Net foreign assets	231.7	452.0	585.0	614.8	792.3	1,090.6	1,500.5	1,678.3
External assets	666.9	927.6	1,098.0	1,147.4	1,299.9	1,581.2	1,990.4	2,047.0
<i>Of which:</i> foreign reserves	663.9	924.6	1,086.6	1,130.7	1,273.5	1,568.8	1,931.1	2,027.2
Foreign liabilities	435.2	475.6	513.0	532.6	507.6	490.6	489.9	368.7
Net domestic credit	-125.8	-249.1	-197.0	249.2	207.2	16.6	-190.8	-363.3
Claims on government (net) 1/	-145.7	-249.1	-225.0	245.2	202.9	12.6	-194.8	-370.1
Claims on public enterprises			28.0	4.0	4.3	4.0	4.0	1.9
Claims on commercial banks	6.1	7.9	57.6	44.9	63.9	72.5	101.6	86.0
<i>Of which:</i> development finance funds	-5.1	-5.1	1.4	7.1	1.7	12.1	2.6	-0.4
Other items, net	219.7	167.8	1.8	-385.4	-503.8	-518.1	-715.2	-534.0
Other assets	55.7	61.5	77.6	51.7	96.3	123.8	124.7	190.3
Other liabilities	-164.0	-90.4	94.2	474.4	574.5	603.7	840.2	724.2
<i>Of which</i>								
revaluation	23.3	125.5	306.4	86.6	91.9	188.2	338.8	525.2
currency revaluation, IMF	-333.0	-381.4	-512.2	-47.8	2.9	-27.0	0.3	69.8
Monetary authority liabilities—base money	331.7	373.1	432.5	442.4	549.6	630.0	630.6	809.9
Reserve money								
Currency outside Bank of Uganda (BoU)	245.9	269.8	317.2	335.5	386.7	447.9	520.3	605.3
Commercial banks deposits	85.8	103.3	115.3	141.5	210.4	235.1	162.7	264.9
<i>Of which:</i> transaction balances of commercial banks	85.8	103.3	115.3	106.9	162.9	182.1	110.4	204.6
BOU instruments bought by commercial banks	--	5.5	14.9	32.2	10.0	31.6	65.5	57.2
BOU PNs issued to DMBs	--	--	--	48.9	--	--	--	--

Source: Bank of Uganda.

1/ Reflects exchange losses on foreign liabilities resulting from the depreciation of the Uganda shilling over the past several years.

Table 21. Uganda: Summary Accounts of the Commercial Banks, June 1997–June 2004
(In billions of Uganda shillings; end of period)

	1997	1998	1998	1999	2000	2001	2002	2003	2004
	June	June	June	June	June	June	June	June	June
Net foreign assets	145.3	187.2	187.2	197.2	291.5	418.7	462.1	600.8	683.7
External assets	165.7	254.1	254.1	272.0	364.7	498.4	551.1	702.2	815.4
Foreign liabilities	20.4	66.9	66.9	74.8	73.2	79.7	89.0	101.4	131.7
<i>Of which: external accounts</i>	11.0	15.8	15.8	12.8	11.0	16.7	19.1	35.3	37.1
Net domestic assets	447.2	605.0	605.0	678.7	749.0	814.9	1,056.1	1,311.3	1,380.8
Claims on government (net)	84.4	120.6	120.6	97.1	169.4	257.7	469.4	585.2	554.3
Advances	1.1	2.4	2.4	0.4	--	--	0.5	4.7	--
Government securities	150.6	185.7	185.7	209.3	320.3	479.8	720.8	754.5	879.1
Recapitalization bonds with									
Uganda commercial banks	72.0	72.0	72.0	72.0	72.0	72.0	48.0	--	--
Treasury bills	73.5	104.4	104.4	128.4	248.3	407.8	672.8	754.5	879.1
Promissory notes	5.1	9.3	9.3	8.9	--	--	--	--	--
Government deposits	67.3	67.5	67.5	112.6	150.9	221.1	251.9	173.9	324.8
Claims on public enterprises	--	--	--	20.2	12.4	6.0	2.9	2.6	11.7
Claims on local governments	--	--	--	1.1	1.0	1.0	0.8	0.6	0.4
Claims on the private sector	331.7	420.5	420.5	546.3	580.4	634.9	661.7	848.6	986.5
Crop finance	62.6	58.5	58.5						
Other loans in Uganda shillings	269.2	362.0	362.0	484.8	493.2	517.3	506.8	658.8	770.3
Forex loans to residents	--	--	--	61.5	87.2	117.6	154.8	189.8	216.2
Cash in vaults	25.1	30.3	30.3	32.5	28.8	36.6	40.7	58.9	76.6
Net claims on Bank of Uganda (BOU)	88.2	111.2	111.2	105.5	163.3	148.1	199.8	227.2	252.7
Balances with BOU	93.2	116.2	116.2	117.2	112.4	159.9	188.5	182.0	215.7
Borrowing at BOU	4.9	10.5	10.5	26.6	24.6	21.8	20.3	20.3	20.2
Investment in BOU instruments	--	5.5	5.5	14.9	32.2	10.0	31.6	65.5	57.2
Other items, net	-82.2	-77.6	-77.6	-124.0	-206.3	-269.4	-319.2	-411.8	-501.4
Other assets	135.7	177.0	177.0	188.3	242.9	268.4	320.3	314.0	294.2
Other liabilities	217.9	254.6	254.6	312.3	449.2	537.8	639.5	725.8	795.7
<i>Of which: interbank claims (net)</i>									
revaluation	-16.1	-24.0	-24.0	-18.8	-26.7	-62.4	-19.8	-39.1	-18.8
Residual	5.8	9.7	9.7	12.2	9.5	4.3	2.1	-5.3	5.5
Residual	--	--	--	--	--	--	--	--	--
Deposit liabilities to residents	588.3	780.5	780.5	875.9	1,040.5	1,233.5	1,518.2	1,912.1	2,064.5
Foreign exchange accounts	103.5	146.9	146.9	207.8	310.8	390.2	434.8	624.2	651.7
Shilling deposits	484.7	633.6	633.6	668.1	729.7	843.3	1,083.4	1,287.8	1,412.8
Demand deposits	263.9	324.9	324.9	360.1	413.1	482.9	617.5	725.1	814.0
Time and savings deposits	220.8	308.7	308.7	296.9	305.8	352.5	460.1	558.7	596.7
Certificates of deposit	--	--	--	11.1	10.8	7.9	5.8	4.0	2.0

Source: Bank of Uganda.

Table 22. Uganda: Commercial Banks' Advances to the Private Sector by Economic Activity, June 1997–June 2004 1/
(In billions of Uganda shillings; end of period)

	1997		1998		1999		2000		2001		2002		2003		2004
	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June
Agriculture	67.0	70.6	68.4	77.2	75.3	62.1	60.9	59.3	54.7	59.6	71.4	62.3	82.6	90.0	111.6
Production	4.4	4.7	9.9	13.6	9.6	12.4	11.0	13.0	16.3	17.0	20.2	17.6	27.0	25.7	43.1
Crop finance	62.6	65.8	58.5	63.6	65.7	49.6	49.9	46.3	38.3	42.6	51.3	44.7	55.6	64.3	68.5
Manufacturing	80.8	79.8	102.4	124.5	153.1	174.8	184.6	211.7	223.4	191.9	170.3	185.3	201.8	224.3	207.3
Foods, beverages, and tobacco	52.5	46.6	66.8	82.7	102.6	108.3	117.2	132.5	137.9	125.8	106.6	110.0	113.9	119.1	111.2
Leather/textiles	2.5	2.3	2.5	1.9	4.1	3.5	3.4	10.6	19.2	1.6	1.9	2.2	4.6	7.7	11.6
Furniture and household	3.7	5.3	5.7	6.3	9.2	1.8	2.5	18.0	5.9	3.2	4.8	0.6	0.7	2.1	2.8
Chemical, pharmacy, and rubber products	3.4	3.2	4.4	5.6	6.5	29.1	29.6	23.5	29.3	22.1	13.7	36.6	22.3	33.2	26.5
Metal products and machinery	0.0	0.0	0.0	0.0	4.5										
Building and construction materials	5.1	6.6	7.0	5.8	10.1	6.4	5.8	2.8	4.6	3.9	5.9	2.7	2.3	4.6	11.3
Others	3.5	4.9	6.6	6.7	16.1	10.8	13.6	13.3	13.2	14.7	18.4	14.2	30.2	25.2	18.2
Others	10.1	10.8	9.5	15.4	0.0	14.9	12.5	11.0	13.2	20.6	19.1	19.0	27.7	32.5	25.6
Trade and other services	170.6	185.6	225.4	227.8	229.7	243.1	279.0	301.1	297.4	323.4	369.1	452.0	485.9	549.2	566.0
Wholesale	76.8	80.1	96.9	79.4	82.5	93.0	112.8	115.0	109.4	129.9	145.2	171.9	170.0	191.0	135.7
Imports	73.2	76.1	88.9	75.5	81.5	90.0	109.8	108.5	103.4	96.3	99.3	122.1	118.2	137.9	123.7
Exports	3.6	4.0	8.0	3.9	1.0	3.0	3.0	6.4	5.9	33.6	45.9	49.8	51.8	53.1	12.1
Retail	32.1	39.1	31.6	43.9	41.1	38.9	37.9	29.7	29.5	27.9	34.6	38.3	41.2	38.4	46.1
Others	61.7	66.3	97.0	104.5	106.1	111.2	128.4	156.4	158.6	165.7	189.3	241.7	274.7	319.8	384.1
Transport, electricity, and water	9.6	11.5	12.9	21.4	18.7	41.8	37.1	35.4	35.1	31.2	29.9	47.6	54.0	63.2	81.4
Transport	9.0	10.8	12.2	20.9	18.3	41.3	36.9	35.4	35.1	31.1	29.9	39.6	53.5	63.2	81.2
Electricity and water	0.6	0.7	0.6	0.6	0.5	0.4	0.1	0.0	0.0	0.0	0.0	8.0	0.5	0.0	0.2
Building and construction	16.7	19.6	18.3	24.2	25.6	28.2	28.4	26.5	26.3	23.6	24.1	23.9	25.9	31.3	32.9
Mining and quarrying	0.2	0.2	0.3	0.3	0.1	1.8	2.1	1.8	2.5	4.1	3.7	3.0	1.9	2.9	0.9
Total	344.9	367.3	427.8	475.3	502.5	551.7	592.2	635.8	639.4	633.8	668.5	774.0	852.1	960.9	1,000.0

Source: Bank of Uganda.

1/ Totals may differ from "claims on private sector" in Table 21, owing to classification differences.

Table 23. Uganda: Government Securities Outstanding by Holders, June 2001–June 2004 1/
(In millions of Uganda shillings; end of period)

	2001		2002		2001		2002		2003		2004
	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June
Government stocks	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Bank of Uganda	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Insurance companies 2/	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social Security Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others 3/	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Treasury bills	205,694	299,483	361,771	485,959	589,443	697,627	928,500.9	1,200,697.6	1,202,597.0	1,340,014.0	1,247,964.0
Bank of Uganda	38,608	49,503	48,419	63,950	64,014	60,103	136,054.8	188,188.1	154,304.7	133,898.9	215,810.3
Commercial banks	144,683	219,361	273,767	378,540	466,120	560,745	721,177.7	889,526.6	880,804.7	968,986.1	819,036.8
Insurance companies 2/	1,008	12,725	15,585	10,304	10,036	3,951	17,205.7	27,901.8	33,118.8	40,491.0	28,952.4
Others 3/	21,395	17,894	24,000	33,165	49,273	72,828	54,062.7	95,081.1	134,368.8	196,638.0	184,164.5
Total	205,699	299,488	361,776	485,965	589,449	697,633	928,506.6	1,200,703.3	1,202,602.7	1,340,019.7	1,247,969.7
Banks	183,294	268,867	322,189	442,493	530,137	620,852	857,236.0	1,077,718.2	1,035,112.9	1,102,888.5	1,034,850.6
Nonbanks	22,405	30,621	39,587	43,471	59,312	76,781	71,270.6	122,985.1	167,489.8	237,131.2	213,119.1

Source: Bank of Uganda.

1/ Face value. Excludes recapitalization bonds.

2/ Includes credit institutions.

3/ Includes institutional and individual investors, oil companies, up-country sales, and others.

Table 24. Uganda: Structure of Interest Rates, 1997–September 2004
(In percent per annum; period averages)

	1997	1998	1999	2000	2001	2002	2003	2004								
								Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
Bank of Uganda																
Rediscount rate	12.87	10.32	11.11	19.08	7.80	7.51	18.95	24.62	22.91	14.81	11.69	11.35	11.87	12.34	12.86	13.27
Bank rate to commercial banks	15.10	13.89	12.75	20.42	14.52	8.51	19.95	25.62	23.91	15.81	12.69	12.35	12.87	13.34	13.86	14.27
Treasury bills																
91 days 1/	10.55	7.55	7.44	13.19	11.00	5.85	16.87	20.03	14.39	7.83	5.34	5.96	6.39	6.90	7.43	7.67
182 days	12.56	8.68	7.73	15.45	14.44	8.75	9.72	22.12	16.53	8.25	6.60	7.59	7.93	8.31	8.37	9.02
273 days	13.44	9.49	8.42	15.49	16.32	10.48	11.32	21.64	16.86	9.14	8.66	9.70	10.51	12.09	13.46	13.38
364 days	13.66	10.23	9.41	15.22	16.02	10.86	11.70	21.44	17.04	9.74	9.17	11.40	10.84	12.65	13.67	13.47
Commercial banks																
Deposit rates (weighted average)	...	5.71	4.15	4.09	3.14	3.37	2.44	2.82	2.31	2.10	1.92	1.56	1.54	1.64	...	...
Savings deposits	3.76	4.16	3.46	4.02	3.71	2.00	2.49	2.40	2.39	2.12	1.87	2.12	2.14	2.20	...	...
Time deposits 2/	11.81	11.35	8.73	9.84	8.48	5.56	5.81	11.46	10.23	6.94	5.71	6.15	5.29	7.07	...	...
Lending rates (weighted average)	21.37	20.86	21.55	22.92	22.66	19.10	19.02	23.24	23.26	22.12	19.77	20.80	20.88	19.92	...	...

Source: Bank of Uganda (BOU).

1/ The 91-day treasury bill rate is also the BOU's rate on ways and means.

2/ Interest rate on 7- to 12-month deposits and longer.

Table 25. Uganda: Balance of Payments, 1997/98–2003/04 1/
(In millions of US dollars)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Current account	-459	-520	-383	-317	-347	-388	-129
Trade balance	-484	-437	-462	-477	-525	-623	-674
Exports, f.o.b.	459	549	460	464	479	508	647
Coffee	270	307	187	110	85	105	114
Noncoffee	190	242	273	355	394	402	533
Imports, f.o.b.	-944	-987	-922	-941	-1004	-1131	-1321
Government related	-171	-164	-190	-122	-135	-140	-161
Private sector	-773	-822	-732	-819	-868	-991	-1161
Services (net)	-202	-230	-209	-213	-293	-240	-198
Inflows	175	186	203	219	225	269	345
Outflows	-377	-416	-412	-432	-518	-509	-543
Income (net)	-84	-109	-142	-141	-129	-149	-141
Inflows	41	47	42	46	29	20	40
Outflows	-125	-156	-184	-187	-159	-169	-181
Transfers	311	256	430	514	601	624	884
Private transfers	-69	-66	61	45	174	166	209
<i>Of which:</i> nongovernmental organizations	67	26	88	57	141	133	144
Official transfers	380	322	369	469	427	458	675
<i>Of which:</i> project support	218	203	202	238	200	192	242
budget support	162	74	110	153	148	181	359
HIPC assistance	0	45	57	56	60	68	62
Capital and financial account	327	347	345	303	424	420	329
Capital account	0	0	0	162	0	0	0
Financial account	327	347	345	141	424	420	329
Foreign direct investment	120	145	177	133	181	192	197
Portfolio investment	0	0	0	0	0	1	10
Other investment	207	202	168	8	242	227	123
Medium and long-term	237	211	174	314	245	252	147
Public sector (net)	195	191	159	313	248	252	148
Disbursements	263	267	241	385	318	328	222
Project support	218	203	202	159	119	137	191
Budget support	45	64	39	84	199	191	31
Amortization due	-68	-75	-82	-72	-70	-76	-74
Private sector (net)	43	20	15	1	-3	0	0
Short-term	-30	-10	-6	-3	-3	-25	-25
Errors and omissions	211	188	3	21	73	79	13
Overall balance	79	15	-35	7	150	112	213
Financing	-79	-15	35	-7	-150	-112	-213
Central bank reserves (- = increase)	-133	-40	14	-41	-173	-133	-221
<i>Of which:</i> gross reserve change	-129	2	29	-19	-134	-91	-169
IMF (net)	-5	-36	-14	-22	-39	-41	-52
Exceptional financing	54	25	21	34	24	21	8
<i>Of which:</i> HIPC rescheduling	0	0	0	2	2	3	3

Sources: Ugandan authorities; and IMF staff estimates and projections.

1/ Fiscal year begins on July 1.

Table 26. Uganda: Merchandise Exports and Imports, 1997/98–2003/04 1/
(Value in millions of U.S. dollars; volume in thousands of metric tons; and
unit value in U.S. dollars per kilogram)

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
Total exports	459.4	549.4	462.6	464.3	479.0	507.9	647.2
Coffee 2/	268.9	306.7	186.9	109.6	85.3	105.5	114.1
Unit value	1.6	1.4	1.0	0.6	0.5	0.6	0.7
Volume (millions of bags)	171.7	224.8	182.3	170.4	189.3	179.6	153.1
Cotton	11.4	10.8	22.5	14.1	18.0	16.9	42.8
Unit value	1.6	1.3	1.0	1.2	0.8	1.0	1.4
Volume	7.4	8.6	21.4	12.1	22.5	16.4	29.6
Tea	35.0	22.7	31.9	35.9	26.9	29.5	39.3
Unit value	1.6	1.0	1.3	1.3	0.9	0.9	1.1
Volume	22.2	21.6	24.0	28.1	30.3	31.1	36.2
Fish products	28.0	47.6	18.6	50.1	80.8	83.8	88.8
Unit value	2.8	2.9	1.9	2.2	3.0	3.5	3.0
Volume	9.9	16.3	9.8	22.3	27.4	24.1	29.1
Cereal	8.1	5.9	4.0	6.1	13.1	8.2	18.0
Unit value	0.2	0.2	0.3	0.2	0.1	0.2	0.2
Volume	33.5	26.8	11.7	29.6	90.0	33.8	91.7
Beans	2.2	4.6	4.8	2.0	1.4	5.5	4.9
Unit value	0.5	0.6	0.4	0.1	0.4	0.3	0.3
Volume	4.5	7.7	12.2	14.4	4.1	19.2	17.3
Other products	105.9	151.1	193.9	246.4	253.6	258.7	339.3
Total imports	943.6	986.6	922.1	941.3	1,003.9	1,130.6	1,321.4
Project support	170.8	164.3	190.0	121.9	135.5	140.0	160.8
Nonproject related	772.7	822.3	732.1	819.4	868.4	990.6	1,160.5
Oil	70.3	90.0	119.4	136.1	123.2	134.4	139.2
Other	702.4	732.3	612.7	683.2	745.2	856.2	1,021.4

Source: Bank of Uganda.

1/ Fiscal year begins in July.

2/ Cash-flow data as reported in the balance of payments, which may differ from shipment data from the Uganda Coffee Development Authority (UCDA).

Table 27. Uganda: External Trade Indices, 1997/98–2003/04 1/
(1999/00 = 100)

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
Exports							
Value	99.2	118.8	100.0	100.4	103.6	109.8	139.9
Unit value index	124.8	129.9	100.0	95.3	84.4	95.3	112.0
Volume index	79.5	91.4	100.0	105.3	122.6	115.2	124.9
Imports							
Value	105.6	112.3	100.0	111.9	118.6	135.3	158.5
Unit value index	105.4	102.7	100.0	99.9	95.3	104.4	113.3
Volume index	100.2	109.3	100.0	112.1	124.5	129.6	139.9
Terms of trade	118.4	126.5	100.0	95.4	88.6	91.2	98.8

Sources: Bank of Uganda; and Fund staff estimates.

1/ Fiscal year begins in July.

Table 28. Uganda: Exchange Rates, January 1997–September 2004 1/
(In Uganda shillings per U.S. dollar, monthly average)

	1997		1998		1999		2000		2001		2002		2003		2004	
	Interbank mid-rate	Foreign exchange bureaus	Interbank mid-rate	Foreign exchange bureaus	Interbank mid-rate	Foreign exchange bureaus	Interbank mid-rate	Foreign exchange bureaus	Interbank mid-rate	Foreign exchange bureaus	Interbank mid-rate	Foreign exchange bureaus	Interbank mid-rate	Foreign exchange bureaus	Interbank mid-rate	Foreign exchange bureaus
January	1,044.85	1,041.34	1,148.07	1,151.45	1,369.21	1,366.35	1,525.75	1,526.46	1,830.44	1,832.86	1,738.74	1,737.93	1,867.69	1,866.98	1,938.16	1,937.41
February	1,033.11	1,036.36	1,152.52	1,152.48	1,377.35	1,377.51	1,519.43	1,521.31	1,742.97	1,736.88	1,741.44	1,740.97	1,883.78	1,882.99	1,865.06	1,867.85
March	1,024.95	1,031.77	1,152.39	1,152.75	1,381.16	1,380.88	1,513.68	1,515.76	1,753.79	1,747.62	1,771.03	1,770.75	1,944.45	1,943.02	1,926.65	1,925.15
April	1,046.46	1,046.76	1,174.51	1,162.86	1,449.73	1,453.97	1,525.86	1,526.82	1,773.82	1,771.62	1,792.19	1,792.56	1,976.53	1,974.55	1,918.78	1,918.21
May	1,065.30	1,063.59	1,223.48	1,218.88	1,518.97	1,523.60	1,579.67	1,580.51	1,782.68	1,782.17	1,797.59	1,797.08	1,997.85	1,996.97	1,855.53	1,854.17
June	1,067.59	1,067.49	1,231.02	1,225.07	1,447.22	1,449.04	1,565.57	1,576.95	1,767.64	1,766.61	1,797.17	1,793.30	1,998.23	1,999.00	1,818.66	1,816.94
July	1,068.02	1,068.61	1,235.02	1,236.08	1,454.51	1,459.53	1,596.42	1,596.15	1,725.74	1,728.16	1,802.83	1,803.31	1,995.28	1,996.90	1,748.26	1,752.09
August	1,098.17	1,100.60	1,244.37	1,233.97	1,463.40	1,462.01	1,676.30	1,670.17	1,750.61	1,748.09	1,805.83	1,806.08	1,998.49	1,997.17	1,731.52	...
September	1,117.12	1,119.59	1,284.84	1,278.68	1,491.67	1,498.82	1,770.51	1,775.52	1,752.90	1,754.49	1,812.64	1,812.08	1,993.55	1,993.53	1,715.75	...
October	1,140.40	1,141.57	1,314.19	1,312.68	1,507.80	1,511.94	1,826.59	1,822.18	1,737.69	1,739.05	1,827.20	1,827.41	1,990.73	1,989.73	...	...
November	1,147.19	1,152.07	1,353.82	1,355.17	1,503.54	1,506.52	1,850.26	1,847.91	1,736.22	1,737.65	1,832.32	1,832.20	1,974.49	1,972.69	...	...
December	1,142.94	1,147.45	1,368.44	1,375.06	1,502.47	1,504.39	1,783.67	1,799.74	1,713.41	1,716.68	1,845.01	1,845.56	1,943.16	1,944.56	...	...

Source: Bank of Uganda.

1/ Period averages.

Table 29. Uganda: Coffee Export Price, Volume, and Value, 1997–2004
(Quantity in 60-kilogram bags; price in U.S. dollars per kilogram; and value in U.S. dollars)

	1997		1998			1999			2000			2001			2002			2003			2004		
	Price	Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value
January	1.16	38,555,079	299,742	1.53	27,460,418	428,020	1.50	38,424,813	300,963	1.14	20,663,319	340,863	0.61	12,521,947	313,732	0.42	7,995,316	302,881	0.70	12,652,766	296,301	0.75	13,391,914
February	1.34	39,790,176	327,056	1.66	32,481,496	402,710	1.44	34,797,753	207,953	1.19	14,851,580	295,717	0.64	11,335,323	271,485	0.42	6,893,603	230,720	0.75	10,435,633	235,193	0.79	11,215,555
March	1.51	30,518,570	234,824	1.72	24,269,880	288,033	1.37	23,627,018	149,120	1.12	10,024,958	211,739	0.64	8,087,470	228,323	0.49	6,693,359	162,227	0.70	6,850,712	235,578	0.84	11,920,394
Q1	1.31	108,863,825	861,622	1.63	84,211,794	1,118,763	1.44	96,849,584	658,036	1.15	45,539,857	848,319	0.63	31,944,740	813,540	0.44	21,582,278	695,828	0.72	29,939,111	767,072	0.79	36,527,863
April	1.61	25,941,328	138,473	1.72	14,323,573	173,031	1.30	13,446,223	94,953	0.92	5,250,089	177,364	0.65	6,870,463	187,954	0.52	5,835,587	121,489	0.66	4,790,866	177,599	0.82	8,768,177
May	1.86	21,575,736	152,883	1.69	15,497,981	265,978	1.21	19,360,211	153,221	0.83	7,643,455	199,427	0.63	7,493,903	226,435	0.42	5,645,537	162,063	0.71	6,940,276	180,901	0.79	8,617,413
June	1.81	31,651,023	356,541	1.56	33,468,465	415,617	1.15	28,666,412	264,771	0.78	12,346,280	269,493	0.54	8,734,804	369,783	0.44	9,677,512	252,808	0.66	9,971,269	263,578	0.80	12,668,868
Q2	1.75	79,168,087	647,897	1.63	63,290,019	854,626	1.20	61,472,846	512,945	0.82	25,239,824	646,284	0.6	23,099,170	784,172	0.6	21,158,636	536,360	0.67	21,702,411	622,078	0.81	30,054,458
July	1.56	31,533,338	407,727	1.38	33,794,857	342,029	1.06	21,746,770	291,029	0.77	13,452,440	335,772	0.50	10,101,963	428,452	0.45	11,559,320	285,366	0.65	11,161,549	284,090	0.75	12,796,509
August	1.44	21,792,803	351,247	1.33	28,051,753	303,987	1.05	19,127,872	220,302	0.72	9,466,303	354,326	0.45	9,632,984	293,102	0.43	7,592,777	200,858	0.66	7,905,176	188,005	0.70	7,894,199
September	1.40	18,541,633	207,931	1.34	16,689,554	218,976	1.02	13,423,743	232,229	0.66	9,237,474	291,001	0.43	7,594,427	250,490	0.45	6,823,385	176,649	0.65	6,931,643	...	...	...
Q3	1.48	71,867,774	966,905	1.35	78,536,164	864,992	1.05	54,298,385	743,560	0.72	32,156,217	981,099	0.46	27,329,374	972,044	0.45	25,975,482	662,873	0.7	25,998,368	472,095	0.73	20,690,708
October	1.55	12,139,601	99,123	1.42	8,457,976	225,025	1.00	13,503,447	138,785	0.66	5,518,917	153,004	0.44	4,045,069	222,886	0.53	7,094,916	133,774	0.69	5,531,235	...	...	...
November	1.19	16,065,529	242,062	1.42	20,610,613	411,903	1.00	24,827,299	227,519	0.62	8,421,409	150,120	0.46	4,125,346	262,187	0.61	9,520,894	138,120	0.72	5,972,832	...	...	...
December	1.51	22,231,127	468,403	1.44	40,507,826	365,788	1.07	23,471,243	232,427	0.61	8,453,619	274,166	0.43	7,055,884	303,178	0.62	11,232,301	228,407	0.73	10,043,871	...	...	...
Q4	1.51	50,436,257	809,588	1.43	69,576,415	1,002,716	1.03	61,801,989	598,731	0.62	22,393,945	577,290	0.44	15,226,299	788,251	0.59	27,848,111	500,301	0.7	21,547,938	...	...	...
Total	1.48	310,335,943	3,286,012	1.50	295,614,392	3,841,097	1.19	274,422,804	2,513,272	0.83	125,329,843	3,052,992	0.53	97,599,583	3,358,007	0.48	96,564,507	2,395,362	0.69	99,187,828	...	...	...

Source: Uganda Coffee Development Authority.

Table 30. Uganda: External Debt Outstanding, 1999–2004
(At end-June)

	1999	2000	2001	2002	2003	2004
(In millions of U.S. dollars)						
Total	3,499.6	3,580.0	3,397.3	3,815.9	4,232.6	4,482.8
Multilateral institutions 1/	2,782.6	2,936.4	2,893.1	3,305.3	3,718.1	4,011.1
AfDB	11.2	11.8	11.2	10.6	10.2	9.2
AfDF	329.8	340.6	327.0	382.1	412.0	476.1
BADEA	12.0	11.3	11.4	8.3	7.8	7.5
EADB	0.0	2.9	3.0	3.4	3.6	3.5
EIB	37.1	35.9	39.6	45.1	45.6	84.0
EDF	0.0	0.0	0.0	0.0	0.0	0.0
IBRD	0.0	0.0	0.0	0.0	0.0	0.0
IDA	1,935.1	2,098.1	2,096.2	2,472.6	2,878.9	3,092.2
IDB	5.4	4.8	4.6	9.0	9.0	8.9
IFAD	52.2	57.1	53.9	60.6	63.4	76.6
IMF	367.5	336.2	310.7	268.7	242.3	204.1
OPEC Fund	12.9	17.3	17.7	19.6	21.2	20.4
Other	19.4	20.4	17.8	25.4	24.1	28.7
Bilateral Paris Club	288.3	260.6	131.5	111.3	125.5	69.1
Austria	24.8	22.9	16.6	19.1	22.0	22.3
France	27.4	17.9	8.6	9.5	10.6	10.3
Germany	0.9	0.9	0.0	0.0	0.0	0.0
Italy	120.7	106.9	12.0	0.0	0.0	0.0
Japan	51.7	59.2	50.4	52.1	52.2	0.0
Norway	0.0	4.7	0.0	0.9	0.9	0.7
Sweden	0.0	4.6	0.0	4.8	4.9	4.5
Spain	42.6	38.5	30.9	24.9	34.9	31.3
United Kingdom	9.1	0.0	13.0	0.0	0.0	0.0
United States of America	1.1	0.2	0.0	0.0	0.0	0.0
Finland	5.2	0.0	0.0	0.0	0.0	0.0
Israel	4.8	4.8	0.0	0.0	0.0	0.0
Bilateral non-Paris Club	361.7	332.6	344.6	377.2	367.2	380.7
Burundi	9.5	9.5	9.5	5.4	5.5	4.7
China	35.8	33.1	18.0	18.0	18.0	18.0
Nigeria	11.1	11.3	11.4	11.5	11.5	13.5
India	69.1	68.1	78.4	87.9	86.1	88.5
Iraq	4.1	4.1	4.1	6.2	6.4	6.4
Kuwait	28.3	25.5	24.3	25.5	26.0	26.4
Libya	114.0	98.2	119.8	143.3	133.6	143.4
Pakistan	3.1	3.0	2.8	2.2	2.4	2.4
Saudi Arabia	9.1	9.5	9.6	9.7	9.5	9.5
Tanzania	57.4	58.3	58.3	58.3	58.3	58.3
United Arab Emirates	4.4	3.7	3.7	5.0	5.1	5.3
North Korea	11.2	3.7	0.0	0.0	0.0	0.0
South Korea	4.6	4.6	4.7	4.4	4.7	4.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	5.4	3.0	6.0	3.5	3.8	3.9
Commercial nonbanks	35.3	29.5	18.0	18.5	18.0	18.0
Other loan	26.3	17.9	4.1	0.0	0.0	0.0
(In percent)						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Multilateral Institutions	79.5	82.0	85.2	86.6	87.8	89.5
Bilateral Paris Club	8.2	7.3	3.9	2.9	3.0	1.5
Bilateral non-Paris Club	10.3	9.3	10.1	9.9	8.7	8.5
Commercial Banks	0.2	0.1	0.2	0.1	0.1	0.1
Commercial nonbanks	1.0	0.8	0.5	0.5	0.4	0.4
Other loan	0.8	0.5	0.1	0.0	0.0	0.0
Memorandum item:						
Debt-to-GDP ratio	58.3	60.4	59.8	65.1	67.2	65.5

Sources: Bank of Uganda and Ministry of Finance, Planning and Economic Development

1/ AfDB, African Development Bank; AfDF, African Development Fund; BADEA, Arab Bank for Economic Development in Africa; EIB, European Investment Bank; IBRD, International Bank for Reconstruction and Development; IDA, International Development Association; IDB, Islamic Development Bank; IFAD, International Fund for Agricultural Development; and IMF, International Monetary Fund.

Table 31. Uganda: Summary of the Tax System as of July 1, 2004
(All amounts in Uganda shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Income taxes (Income Tax Act, 1997)			
1.1 Taxes on companies, or enterprises	<p>Tax is imposed on the income of resident companies, which accrue worldwide, and on the income of nonresident companies from sources in Uganda.</p> <p>The taxable income of nonresident companies is calculated in the same manner as that of resident companies and taxed at the same rate. Losses can be carried forward. Capital gains on business assets are taxed.</p>	<p>The following amounts are exempt from tax:</p> <ul style="list-style-type: none"> • the income of a listed institution; • the income of any organization or person entitled to privileges under the Diplomatic Privileges Act to the extent provided in the regulations and orders made under that act; • the official employment income derived by a person in the public service of the government of a foreign country provided that (i) the person is either a nonresident or is a resident individual solely by reason of performing such service; (ii) the income is payable from the public funds of that country; and (iii) the income is subject to tax in the country; • any allowance payable outside Uganda to a person working in a Ugandan foreign mission; • the income of any local authority; • the income of an exempt organization other than (i) property income, except rent received by an exempt organization, or (ii) business income that is not related to the function constituting the basis for the organization's existence; 	<p>The basic rate is 30%.</p> <p>Special rates apply to mining income.</p> <p>Income from small businesses is taxed at different rates (see section on presumptive tax).</p>

Table 31. Uganda: Summary of the Tax System as of July 1, 2004
(All amounts in Uganda shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
		<ul style="list-style-type: none"> • any education grant that the Commissioner is satisfied has been made bona fide to enable or assist the recipient to study at a recognized educational or research institution; • any amount derived by way of alimony or allowance under any judicial order or written agreement of separation; • the value of any property acquired by gift, bequest, devise, or inheritance that is not included in business, employment, or property income; • any capital gain that is not included in business, employment, or property income; • employment income derived by an individual to the extent provided for in a technical assistance agreement where (i) the individual is a nonresident or a resident solely for the purpose of performing duties under the agreement; (ii) the Minister has concurred in writing with the tax provisions in the agreement; and (iii) the name of each individual to benefit from the exemption provision in the agreement is included in a notice published in the Gazette; • pensions; 	

Table 31. Uganda: Summary of the Tax System as of July 1, 2004
(All amounts in Uganda shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates	
1.2 Taxes on individuals	Tax is imposed on income of resident, which accrues worldwide, and on the income of nonresidents from Ugandan sources. Taxes are assessed on worldwide comprehensive concept of income, including nonsalary benefits, but credits are allowed for tax paid on foreign-sourced income. A pay-as-you-earn system operates for employees. Refunds or additional taxes are paid when actual tax liability is determined.	<ul style="list-style-type: none"> • lump-sum payments made by a resident retirement fund to a member of the fund or a dependent of a member of the fund; • the proceeds of a life insurance policy paid by a person carrying a life insurance business; or • the official employment income of a person employed in the Armed Forces of Uganda, the Uganda Police Force, or the Uganda Prisons Service, other than a person employed in a civil capacity. • special provisions apply to the following sectors: farming and horticulture, insurance, and mining. 	Taxable income (Uganda shillings)	Tax payable (Uganda shillings)
		In ascertaining income, all expenditures incurred in the production of that income are deductible. Interest and dividend earnings by individuals are subject to a 15 percent final tax deductible at source. Pension income is exempt. Income from interests on treasury and Bank of Uganda bills is not exempt.	Residents	
			Below 1,560,000	Nil
			Between 1,560,000 and 2,820,000	10% of the amount by which the chargeable income exceeds 1,560,000

Table 31. Uganda: Summary of the Tax System as of July 1, 2004
(All amounts in Uganda shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	For rental income, a special regime applies for individuals whereby the threshold of U Sh 1,560,000 and 20 percent of the chargeable income are allowed as deductions, with a tax rate of 20 percent applying to the balance.	Between 2,820,000 and 4,920,000	126,000 plus 20% of the amount by which the chargeable income exceeds 2,820,000
		Over 4,920,000	546,000 plus 30% of the amount by which the chargeable income exceeds 4,920,000
		Nonresidents	
		Up to 2,820,000	10%
		Between 2,820,000 and 4,920,000	U Sh 282,000 plus 20% of the amount by which the chargeable income exceeds 2,820,000
		Over 4,920,000	702,000 plus 30% of the amount by which the chargeable income that exceeds 4,920,000

Table 31. Uganda: Summary of the Tax System as of July 1, 2004
(All amounts in Uganda shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates		
1.3 Presumptive tax	Turnover tax imposed on a taxpayer carrying on business with a gross turnover of less than U Sh 50,000,000.	No deductions are allowed for expenditures or losses incurred in production. The tax is a final levy. The tax does not apply to persons providing medical, dental, architectural, engineering, accounting, legal or other professional services, public entertainment services, public utility services or construction services.	Gross turnover if the taxpayer's turnover is above U Sh 5,000,000 but does not exceed U Sh 20,000,000 per annum.	U Sh 100,000	
			Between U Sh 20,000,000 and U Sh 30,000,000	U Sh 250,000 or 1% of gross turnover, whichever is the lower	
			Between U Sh 30,000,000 and U Sh 40,000,000	U Sh 350,000 or 1% of gross turnover, whichever is the lower	
1.4 Withholding taxes on domestic and foreign payments	Levied on interest, dividends, royalties, management and professional fees, and Uganda-sourced service contracts payable to nonresidents.		15%	U Sh 450,000 or 1% of gross turnover, whichever is the lower	
			Levied on interest and dividends payable to residents.	Interest paid by a natural person, or paid to a financial institution, or paid by a company to an associated company.	15%
			Levied on payments for certain imports and domestic transactions.	Exempt transactions include purchases of petroleum products, plant, and machinery, drugs, education materials, and raw materials.	6%

Table 31. Uganda: Summary of the Tax System as of July 1, 2004
(All amounts in Uganda shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
		For domestic transactions, only payments by government, local authorities, and parastatals are subject to the 6% withholding tax. Up-to-date taxpayers, as published by the Uganda Revenue Authority, are also exempt from the 6% withholding tax.	
2. Taxes on goods and services			
2.1 Value-added tax	Levied on imported and local supplies of goods and services.	Zero-rating applies to exports, international transport of goods or passengers, medical supplies and equipment, education materials, farm inputs, cereals grown, milled or produced in Uganda, and machinery and tools suitable for use only in agriculture.	17 %
		Exemptions apply to financial, medical, social welfare, funeral, insurance, and education services, unprocessed food stuffs, passenger transport services, excisable petroleum products, unimproved land, building leases, betting, dental, medical and veterinary supply, milk and most milk products, maize flour, animal feeds, machinery for processing agricultural and dairy products, computer and accessories, accommodations in the hotel industry, postal supplies, imports exempt from import duties and solar equipment.	

Table 31. Uganda: Summary of the Tax System as of July 1, 2004
(All amounts in Uganda shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates	
2.2 Excise duties	Levied on selected imports and on locally produced goods as alcohol tobacco, and sugar, and local services as cellular phone calls payable by the importer or manufacturer.		Main excisable goods	Rates
			Petrol (per liter)	U Sh 610
			Diesel (per liter)	U Sh 370
			Kerosene (per liter)	U Sh 200
			Beer	60%
			Cigarettes	130%
			Spirits	70%
			Wine	70%
			Soft drinks	15%
			Raw sugar	20%
			Motor vehicles	10%
			Cellular air time	7%
2.3 Business and professional licenses	All firms must have a license for all kinds of businesses in which they are engaged.	Charitable religious and other welfare organizations are exempt.	Fees vary according to type and location of businesses.	
3. Taxes on international trade				
3.1 Imports under the Harmonized System	Uganda maintains a single-column tariff schedule based on the Harmonized System.	Imports for President's use; imports by diplomats; imports of personal effects; and duty-free allowances; raw materials for manufacturing pharmaceutical products; import of soluble/instant coffee made with beans originally exported from Uganda; packing material for milk, instant/soluble coffee, and to the milling industry; supplies to airlines are exempt.	Goods	Rates
			Plant and machinery and selected raw materials	0%
			Other raw materials	(COMESA 4%) 7%
			Consumer goods	(COMESA 6%) 15%
3.2 Foreign vehicles	Levied on heavy goods vehicles.	None	Vehicles with three or more axles.	US\$27 per vehicle.

Table 31. Uganda: Summary of the Tax System as of July 1, 2004
(All amounts in Uganda shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.3 Import commission	Levied on all imports.	Plants and machinery imported free of duty. School materials and pharmaceutical products which are exempt of zero-rated for purposes of VAT. Packaging material for pharmaceutical product. Raw Material and imports by the government.	2%
3.4 Export taxes	Levied on exports of raw animal hides and skins only. Payable by the exporter.		15%
4. Other taxes			
4.1 Stamp duty	Levied on a range of specific instruments, including agreements, bills of exchange, deeds, mortgages, lease agreements, cigarettes, etc.	Government transactions and at the discretion of the Minister of Finance.	Mortgages 0.5% and others 1%; where a value is not ascertainable, a rate of U Sh 5,000 applies.
4.2 Airport service charge	Levied on all departing passengers.	None.	US\$40 or equivalent.
4.3 Fees on motor vehicle	Annual license, registration, transfers, and examination fees		Fees vary with the type and use of motor vehicle.