INTERNATIONAL MONETARY FUND

UGANDA

Staff Assessment of Qualification for the Multilateral Debt Relief Initiative

Prepared by the African Department
(In consultation with other departments)

Approved by Michael Nowak and Mark Plant

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Uganda reached the completion point under the enhanced HIPC Initiative on May 1, 2000.

Macroeconomic Performance

1. **Status of Fund arrangement.** A three-year PRGF arrangement with access of SDR 13.5 million (7.5 percent of quota) was approved by the Executive Board on September 13, 2002. The fifth review under the PRGF arrangement was completed on July 8, 2005, and the sixth and final review is on track to be completed by mid-January 2006. During a recent mission to Kampala, staff reached understandings, ad referendum, on policies that could be supported by a Policy Support Instrument (PSI). The mission found that most performance criteria and benchmarks for the sixth review under the PRGF arrangement were completed.

2. **Recent developments.** Macroeconomic performance has been satisfactory since the completion point. Economic growth has remained strong at about 6 percent and underlying inflation has been contained below the Bank of Uganda's target threshold of 5 percent. In recent years, the fiscal stance has gradually tightened, in line with the program, in support of an expansion of activities in the private sector. Foreign exchange reserves remain at comfortable levels, supported by significant aid inflows.

3. **Summary assessment.** Given the completion of the fifth review under the PRGF on July 8, 2005 and continued good macroeconomic performance thereafter, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Implementation of the Poverty Reduction Strategy

4. **Recent developments.** Uganda's Poverty Eradication Action Plan (PEAP), which was launched in 1997, has been revised twice through broad-based and participatory consultations with stakeholders. The third PEAP, which was approved by the cabinet in November 2004, covers the period through FY 2007/08. Uganda established the Poverty Action Fund (PAF) to channel resources made available by HIPC relief toward poverty-

reducing public expenditures. As a result, the PAF expenditures accounted for about 36 percent of total public expenditures in FY 2004/05. Poverty fell from 56 percent in 1992 to 38 percent in 2003 and health and education indicators have generally improved since the completion point.

5. **Summary assessment.** Given the recent track record of satisfactory implementation of poverty reduction policies, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Public Expenditure Management System

6. **Recent developments.** Uganda's public expenditure management (PEM) system has been broadly maintained and has been improved in several important areas since the completion point. Uganda met 8 out of 16 benchmarks in the 2004 HIPC assessment. While Uganda still faces challenges in deepening its public expenditure reform, the core systems are established and are working reasonably well. Uganda has made substantial progress in strengthening the legal and regulatory framework for efficient public expenditure management. Over the last few years, Uganda has also designed and is in the process of rolling out its Integrated Financial Management System (IFMIS), while in the budget area it has continued to strengthen its medium-term expenditure framework.

7. **Summary assessment.** Staff is of the view that the criterion on the quality of PEM systems to qualify for MDRI debt relief is met.

Other

8. **Provision of information to the Fund.** The authorities' provision of information on macroeconomic performance and policy implementation is adequate for program monitoring and surveillance purposes.

9. **Payments to the IMF, the World Bank, and the African Development Bank.** Uganda has remained current on its payment obligations to these international financial institutions.

Overall Assessment

13. Staff is of the view that all three criteria are met, and recommends that the Board determine that Uganda qualifies for immediate debt relief under the MDRI.

Uganda: Selected Macroeconomic Indicators, 2000/01-2005/06

(Annual percentage change; unless otherwise indicated)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06 Est.
Real GDP	4.8	6.9	4.4	5.6	5.6	6.0
Inflation (e.o.p.)	5.9	-2.5	10.2	0.9	10.7	5.0
Real effective exchange rate	-6.5	-1.7	-10.6	-8.5	10.4	--
Broad money	18.6	9.9	17.3	10.0	12.1	14.5
Overall fiscal balance including grants (in percent of GDP)	-2.7	-5.3	-4.3	-1.6	-0.3	-2.0
Current account balance including grants (in percent of GDP)	-3.8	-4.9	-5.8	-1.7	-1.2	-4.0
Foreign exchange reserves (in months of imports)	5.7	6.3	6.2	5.9	6.0	5.9

Uganda: Public and Publicly Guaranteed (PPG) External Debt and Debt Relief 1/ 2/

(In millions of U.S. dollars; unless otherwise indicated)

	2004	2005 (Est.)	2006 (Proj.)		2007 (Proj.)
			Before MDRI	After MDRI 3/	After MDRI
PPG External debt	4,133	4,422	4,657	4,056	1,074
Of which: owed to the Fund	204	156	128	9	9
Of which: owed to IDA	3,090	3,150	3,321	3,321	315
Of which: owed to AfDB	482	496	495	11	20
NPV of PPG external debt to exports 4/	193	179	169	40	46
Debt service to exports 4/	17	16	13	12	4
PPG external debt to GDP (in percent)	61	51	49	43	11
NPV of PPG external debt to GDP (in percent)	28	24	23	6	7

1/ After HIPC assistance.
2/ In fiscal-year, which ends in June. Thus, IDA's debt relief is shown in fiscal year 2006/07.
3/ Assuming delivery on January 1, 2006 for the Fund and the AfDF, and on July 1, 2006 for IDA.
4/ Exports of goods and services for the year under consideration.