

The IMF Strategy for Low Income Countries Overview and the Case of Uganda



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OBJECTIVES

- **Foster strong, sustained and inclusive growth and durable poverty reduction**
 - ✓ Stable and sustainable macroeconomic positions
 - ✓ Strong institutions
- **Manage volatility more effectively**
 - ✓ Build resilience against external shocks, natural disasters and swings in aid and financing

2009 LIC FACILITIES REFORM: PRINCIPLES

- **Provide more concessional resources**
- **Zero interest rate until end-2012**
- **Streamlined conditionality**
- **Serve needs of diverse LICs**
 - Many face entrenched adjustment needs
 - Some are highly fragile, with very low capacity
 - Others are getting market access
- **Make debt limits more flexible to meet infrastructure gaps**

LIC FACILITIES ARCHITECTURE

ECF (Extended Credit Facility)	SCF (Standby Credit Facility)	PSI (Policy Support Instrument)	RCF (Rapid Credit Facility)
Medium-term Financing Need	Precautionary or Short-term Financing Need	No or Limited Financing Need	Emergency Financing Need
Upper Credit Tranche (UCT) quality programs			Non-UCT



EXTENDED CREDIT FACILITY (ECF)

- Designed for ‘protracted’ BoP problems (financing/adjustment of 3 years or more)
- Need for a clear poverty reduction strategy
- Access norms
 - 75 - 120% of quota
- At present, 25 arrangements

STANDBY CREDIT FACILITY (SCF)

- **Concessional version of usual SBAs**
- **Short-term BoP need (financing/adjustment need for 2 years or less). Can be treated as precautionary**
- **Access of 75 - 120% of quota**
- **3 current arrangements**

POLICY SUPPORT INSTRUMENT (PSI)

- For LICs that have secured macroeconomic stability and thus do not need IMF financial assistance
- Signaling instrument. Fixed reviews every 6 months, and terminated after non-completion of 2 consecutive reviews.
- Access to SCF or SCF in case of subsequent financial needs.
- Duration: one to three years, extendable to 4 years
- At present, 5 users, all in Sub-Saharan Africa

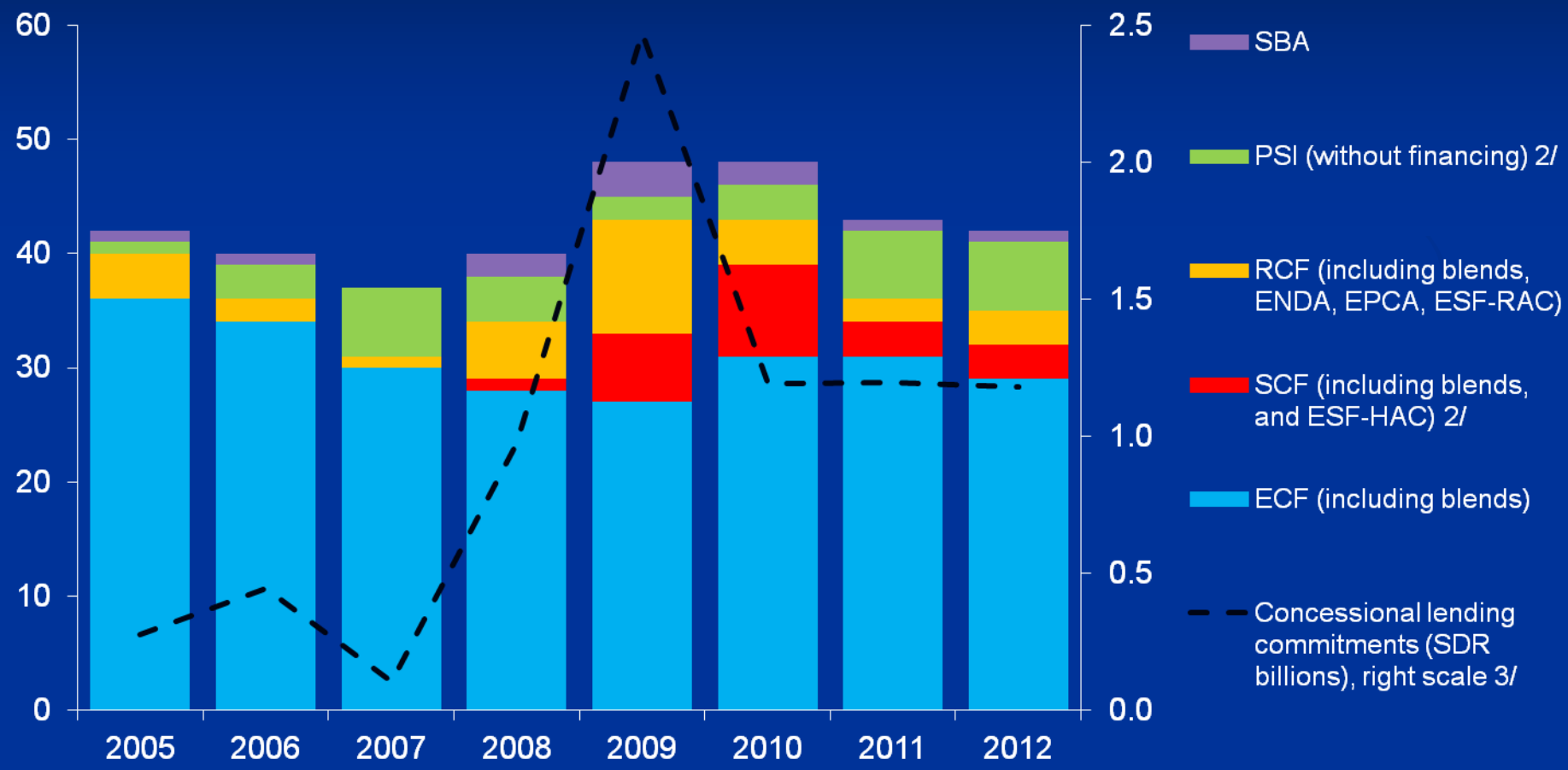
RAPID CREDIT FACILITY (RCF)

- Assistance in fragile situations
- Urgent BoP need, when conditionality is not feasible or not needed
- Outright disbursements
- Access limits
 - 25% - 75% of quota
- 7 users to date

STAFF MONITORED PROGRAMS (SMP)

- **Fund monitoring of economic program**
 - No formal Board endorsement
 - No access
- **SMP appropriate when there is:**
 - Uncertainty on member commitment & capacity to implement a usual Fund program
 - No urgent BOP need which would warrant use of RCF

LICs WITH IMF FACILITY IN PLACE AND CONCESSIONAL LENDING COMMITMENTS; 2005–2012 ^{1/}



1/ Shows one instrument per country and year for currently PRGT-eligible (71) countries.

2/ For countries with concurrent PSI and short-term financing, only the latter is counted (Senegal (2008-10); Mozambique (2009-10); and Tanzania (2009-10)).

3/ New concessional commitments (including emergency assistance) cover all LICs that were PRGT-eligible at the time.



SUPPORTING COUNTRY-OWNED STRATEGIES

- **Safely scale up investment in infrastructure and social spending**
- **Safeguard debt sustainability**
- **Build capacity**
- **Manage natural resources**
- **Deepen financial markets**
- **Diversify economies**
- **Identify emerging risks**

PERFORMANCE OF LICs DURING GLOBAL SLOWDOWN

LICs were broadly resilient

- Proactive in loosening policies to stimulate growth
- Fund facilities may have helped in two ways:
 - supporting a gradual buildup of macroeconomic buffers in the decades prior to the crisis
 - providing liquidity support at the height of the crisis



UGANDA—USE OF IMF FACILITIES AND INSTRUMENTS

- **PSI: May 2010-May 2013 ...**
- **PSI: Dec 2006-May 2010 ...**

- **ECF: Sept 2002-Jan 2006: SDR 13.5 million**
- **ECF: Nov 1997-Mar 2001: SDR 100.4 million**
- **ECF: Sep 1994-Nov 1997: SDR 120.5 million**

WHY A PSI?

- Reflects Uganda's transformation into a mature stabilizer
- Indicates a stable external position
- Signals to donors that policies are well designed
- Provides a platform for coordinated structural adjustment.

Program content reflects these objectives.

PROGRAM CONTENT 1—MACROECONOMIC STABILITY

Support to the authorities' goals of maintaining low inflation and sustainable fiscal and external positions.

- Limits on growth of monetary aggregates
- Limit on increase in claims on government
- Limit on contraction/guaranteeing of external non-concessionary debt

PROGRAM CONTENT 2—STRUCTURAL MEASURES

Improve institutions and functions needed for sustained growth and stability.

- **Macroeconomic policy formulation**
- **Public financial management**
- **Tax policy, and revenue administration**
- **Banking supervision**
- **Payments systems**
- **Statistical compilation.**

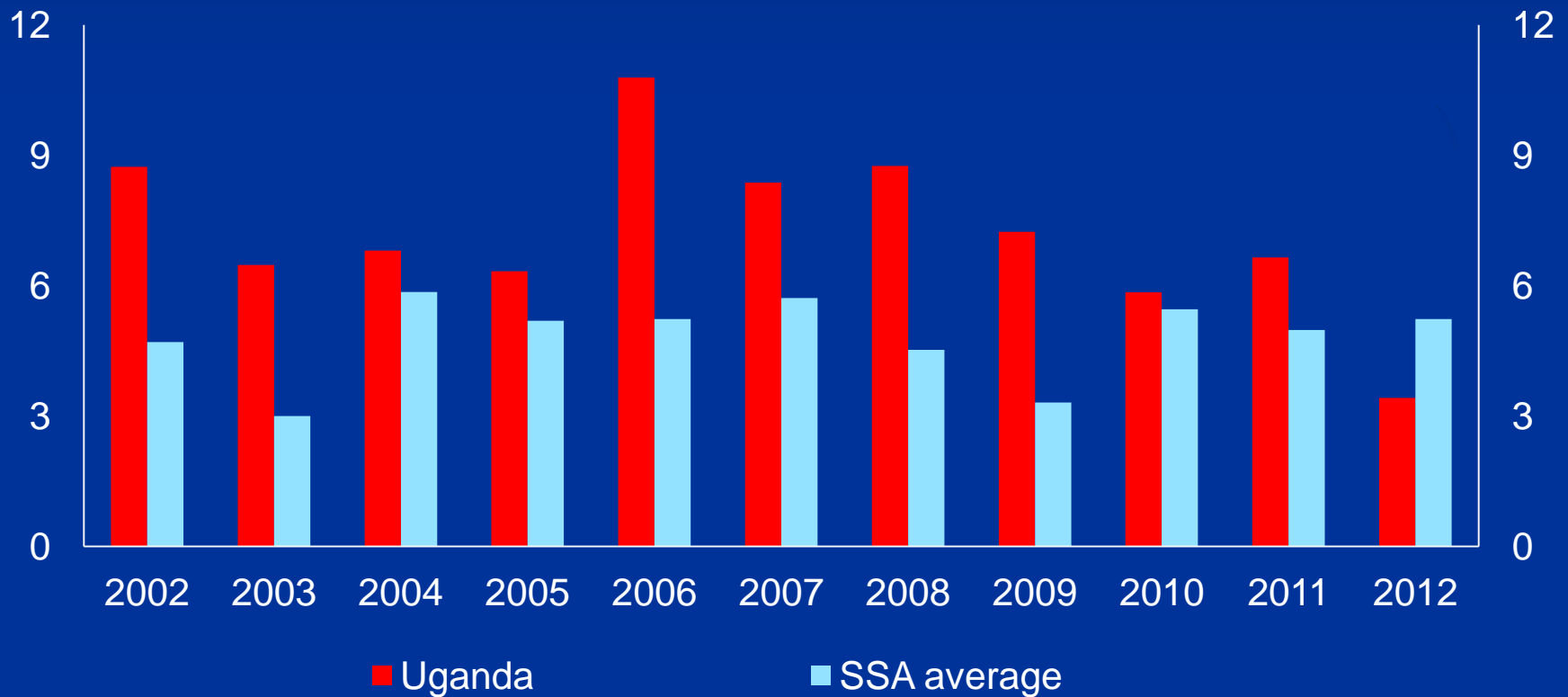
Structural advice is frequently accompanied by technical assistance from the Fund.

PROVISION OF TECHNICAL ASSISTANCE

- **Fiscal policy:** Revenue administration, tax policy, and PFM, including the draft Public Finance Act;
- **Monetary policy:** Transition towards an inflation targeting regime.
- **Statistics:** National accounts methodology and compilation

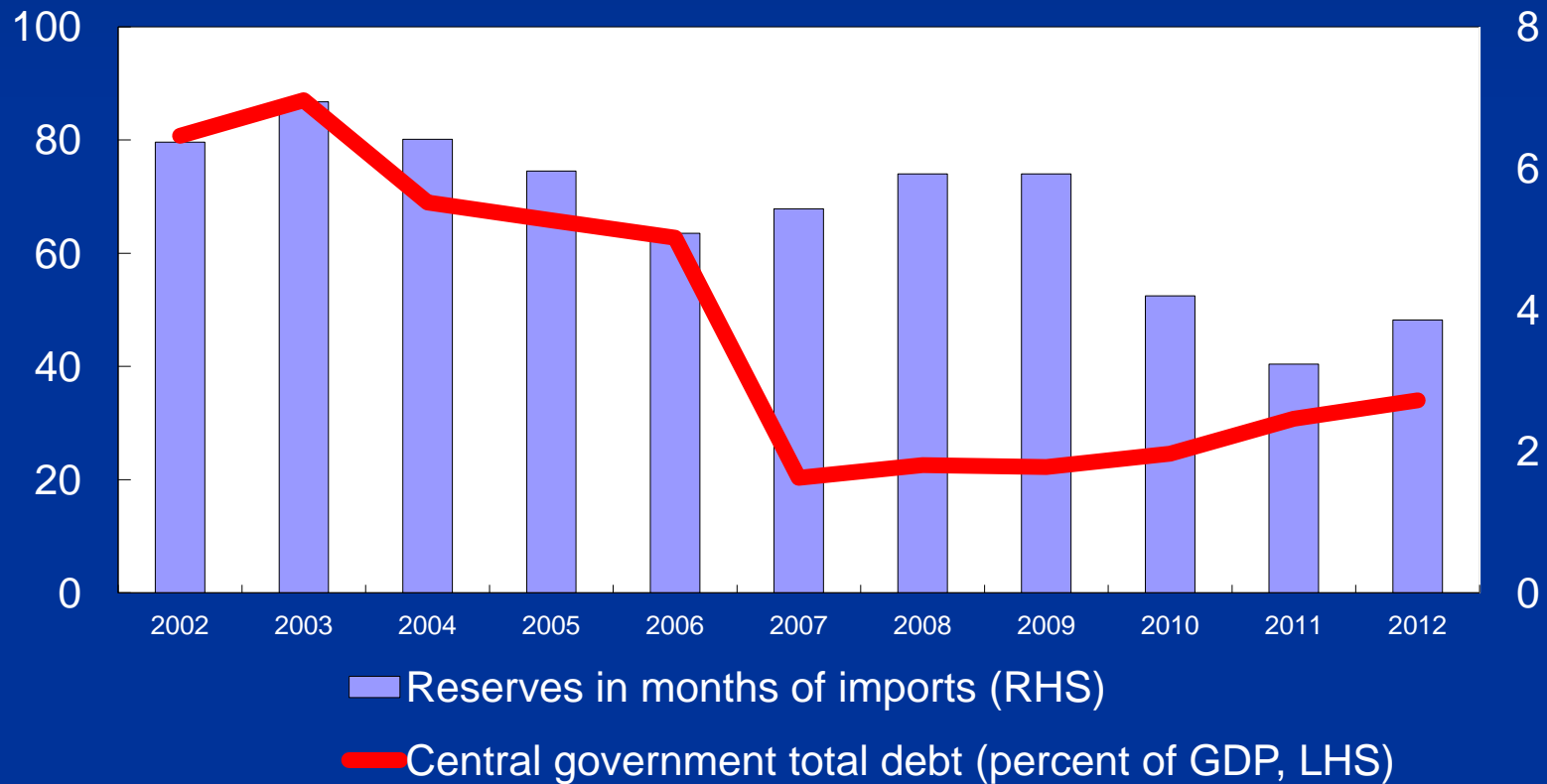
PERFORMANCE UNDER THE PROGRAM

Uganda and SSA: Growth Rate of Real GDP



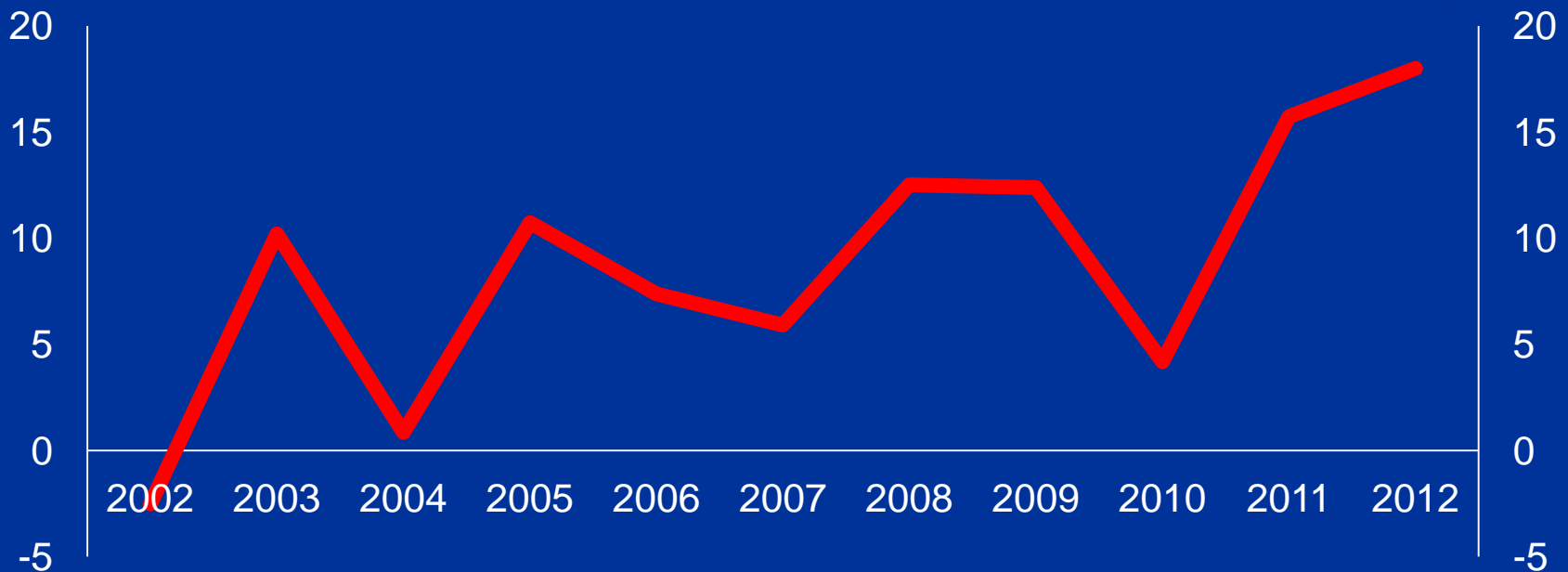
BUFFERS WERE BUILT UP AND UTILIZED

Uganda: Total Debt and Reserves



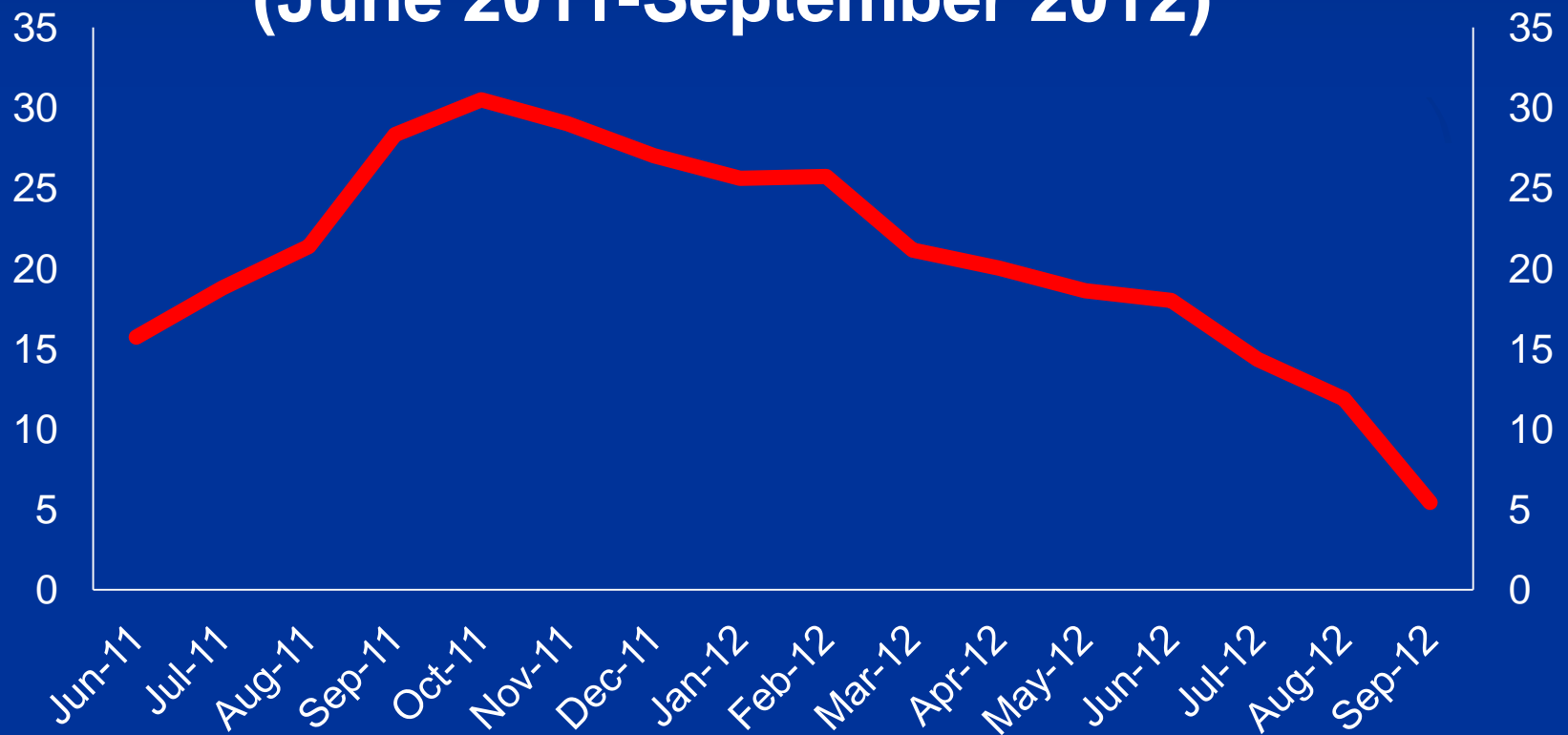
INFLATION WAS PROBLEMATIC IN THE LATTER PERIOD...

Headline Inflation (Annual percentage change, eop)



...BUT WAS BROUGHT UNDER CONTROL IN THE LAST 12 MONTHS.

Annual Percentage Change in CPI (June 2011-September 2012)



CHALLENGES AHEAD (check if this makes sense)

- **Boost domestic revenue base**
- **Improve spending efficiency and PFM**
- **Develop targeted social support mechanisms**
- **Prepare for efficient management of oil revenue**
- **Develop potential of agriculture and tourism**
- **Improve governance and business environment**



Thank you

