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December 20, 2007

The Acting Chair's Summing Up
Uganda—Second Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria
Executive Board Meeting 07/111
December 19, 2007

Directors commended the authorities for supporting Uganda's continued strong economic performance through appropriate macroeconomic policies. They welcomed the authorities' commitment to the program as demonstrated by disciplined fiscal performance, price stability, and strong efforts on the structural front.

Directors agreed that the positive economic outlook was contingent on addressing key infrastructure bottlenecks and maintaining sound policies in the face of volatile foreign exchange flows and budgetary pressures. They noted that high oil prices constitute a downside risk for growth, although the economy has shown resilience in the face of oil price shocks in the past.

Directors welcomed the authorities' continued focus on price stability as the primary objective of monetary policy. Directors supported the introduction of net domestic assets of the central bank as a near-term operating target. This would provide the central bank with greater flexibility in dealing with temporary currency flows and unanticipated shifts in money demand. Directors encouraged the authorities to move ahead with their plans for inflation targeting in the future.

Directors observed that continuing shilling appreciation pressures require monitoring, noting that exchange rate shifts due to underlying economic developments should not be resisted. Uganda's future competitiveness and ability to diversify its exports depend fundamentally on reducing the costs of production through investment in education and infrastructure, and financial market deepening.

Directors welcomed the authorities' strategy of increasing public savings through expenditure restraint and improved domestic revenue collection. They stressed that the government will need to remain focused on priority spending. Directors underlined the importance of prudently and transparently managing oil resources, and they welcomed the plans to introduce a national energy policy.

Directors noted that the domestic interest cost of monetary policy will remain high in the near future, as the government will have to meet the budgetary costs of maintaining price stability. In the medium term, financial market development and smaller deficits—achieved by increasing efficiency in the delivery of public services and by eliminating waste—will generate additional savings.

Directors supported the government's efforts to address the long-standing problem of domestic arrears. They noted that success ultimately depends on fully funding statutory obligations and commitment to sound budget management.

Directors supported the government's increased allocation of spending to infrastructure investment, energy, education, and rural development. They viewed turnkey investment projects as possible alternatives to avoid costly implementation delays. However, Directors noted that, especially to the extent that these projects were financed on less than fully concessional terms, they should be evaluated on a case-by-case basis in terms of their cost effectiveness and their impact on debt sustainability.