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IMF Executive Board Completes Fourth Review Under the Policy Support Instrument for Uganda

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review under a three-year Policy Support Instrument (PSI) for Uganda. The PSI was approved on December 15, 2006 (see Press Release No. 06/281). The program goals include macroeconomic stability, sustainable economic growth, poverty reduction, financial sector deepening, and improved public sector financial management.

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. Members' performance under a PSI is reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).

Following the Executive Board's discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Uganda's economy has continued to thrive. Sound macroeconomic policies underpin Uganda's good performance. Nevertheless, the current global financial crisis and economic downturn pose downside risks to Uganda's growth prospects and the authorities will need to be vigilant.

"The authorities are committed to maintaining price stability. The recent fall in international food and fuel prices provides an opportunity to return inflation to its medium-term objective.

"The fiscal stance underlying the 2008/09 budget provides an appropriate modest stimulus. In the event of revenue shortfalls from budget targets, immediate cuts in current expenditures should be avoided as these may exacerbate the economic downturn and lead to domestic arrears.

"Investing in infrastructure remains a critical priority for raising Uganda's medium-term growth potential. The current global environment could make raising foreign financing more challenging, placing a premium on careful project evaluation to ensure that public investment remains cost effective and consistent with long-term debt sustainability.

"Uganda's banking sector remains generally sound. However, vulnerabilities exist in some areas, reflecting the rapid expansion in bank lending and the significant share of foreign-exchange loans in banks' portfolios. Prudential supervision needs to remain vigilant to address potential risks," Mr. Kato said.