

# CAPACITY TRANSFER FOR LONG-TERM MACRO-FISCAL MODEL



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Partner organisation: the Bank of Uganda



## IN BRIEF

- » Effective monetary policy relies on a strong analytical framework
- » Policy analysis of long-term macroeconomic developments supports debt sustainability and macroeconomic stability
- » This model is designed for use as a key input to monetary policy decision-making
- » The Bank of Uganda has adopted and further refined the model which is also set to be implemented by the Macroeconomic Modelling Unit

Effective monetary policy relies on a strong analytical framework. This project was requested at a high-level meeting at the Ministry of Finance, Planning and Economic Development, at which IGC Professors Christopher Adam and David Bevan presented initial results from related work. Following on from this work, the IGC developed a Uganda-specific long-term macro-fiscal model.

This project transforms the academic paper presented in a previous IGC project into a practical policy tool for the Ugandan government. The participation of Bank of Uganda staff and planned involvement of the Finance Ministry promise sustainable implementation and ownership of the long-term macro-fiscal model developed by this project. The model will support the analysis of public investment, public debt and economic growth, thus providing a strong analytical framework for effective monetary policy.

Key insights include estimates that at currently planned investment rates, the maximum share of the expected oil windfall that can be directly invested is only 35%. This has supported a push for a more extended investment horizon, slowing public investment down to allow the productive potential of the economy to grow and yield returns before excessive public capital is deployed without requisite revenues to operate, maintain, and finance the investment. Second, the model pointed to caution on transfer spending ahead of the oil windfall, which has been borne out as a prudent decision given falling energy prices.

The model is being refined for use in macroeconomic policy formulation.