



BANK OF UGANDA

Regional Economic Outlook April 2016

Dr. Louis Kasekende
Deputy Governor, Bank of Uganda

Mission: To Foster Price Stability and a Sound Financial System



Macroeconomic and Fiscal Space

- ❑ Since the global financial crisis in 2008, macroeconomic and fiscal space has narrowed substantially in both oil exporters and oil importers;
- ❑ Current account balances, fiscal balances and foreign reserve cover have deteriorated in both sets of economies (next three slides);
- ❑ Many SSA countries have much less scope to implement counter-cyclical macroeconomic policies to offset the effects of negative economic shocks than was the case in 2008-09;
- ❑ Policy buffers should be rebuilt to restore policy options for macroeconomic stabilisation
- ✓ Need to reduce current account and fiscal deficits,
- ✓ Curb the growth of public debt and raise foreign reserve cover

Fig 1: Overall Fiscal Balance, percent of GDP, 2004-8 average and 2015

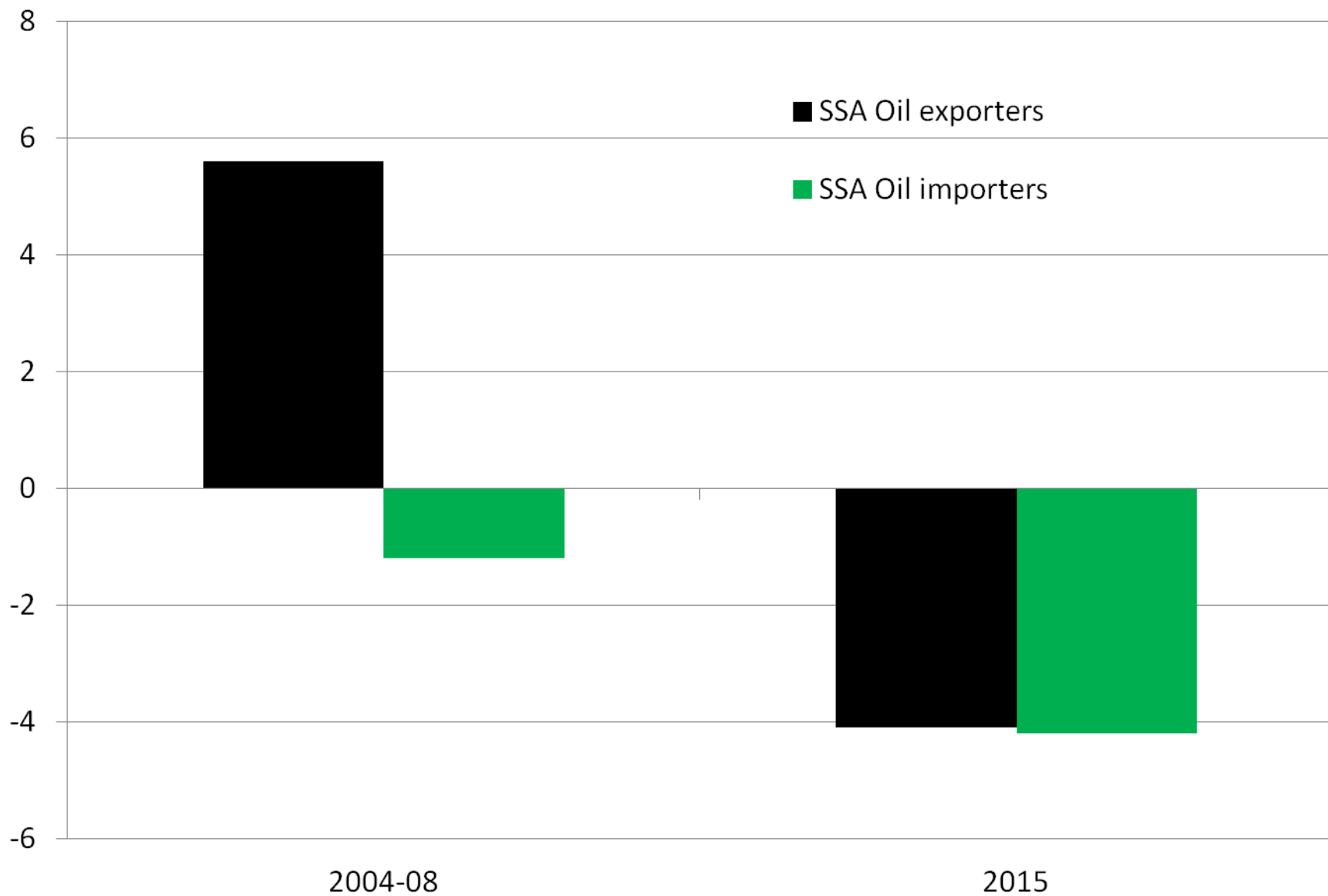


Fig 2: Current Account Balance, percent of GDP, 2004-08 average and 2015

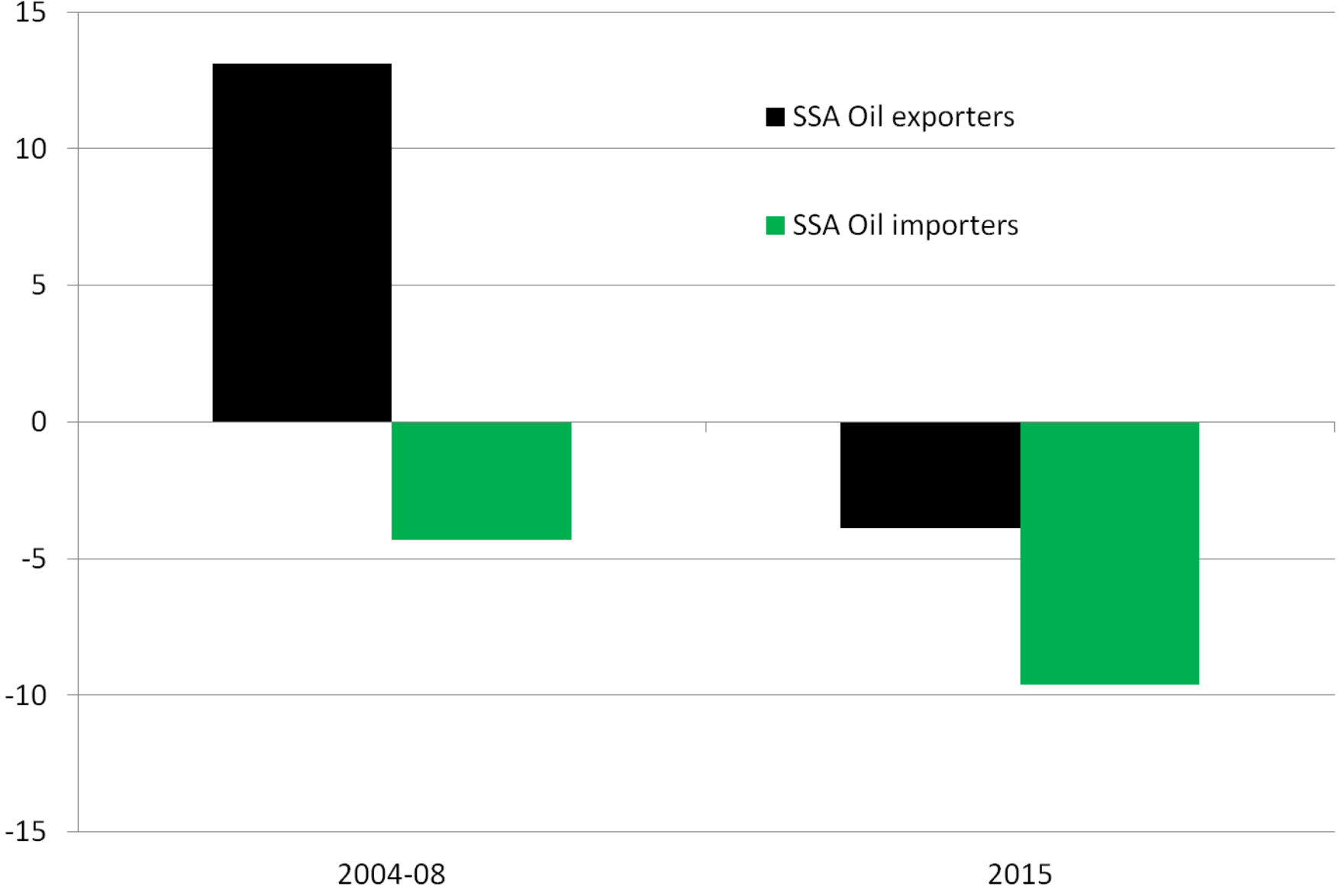
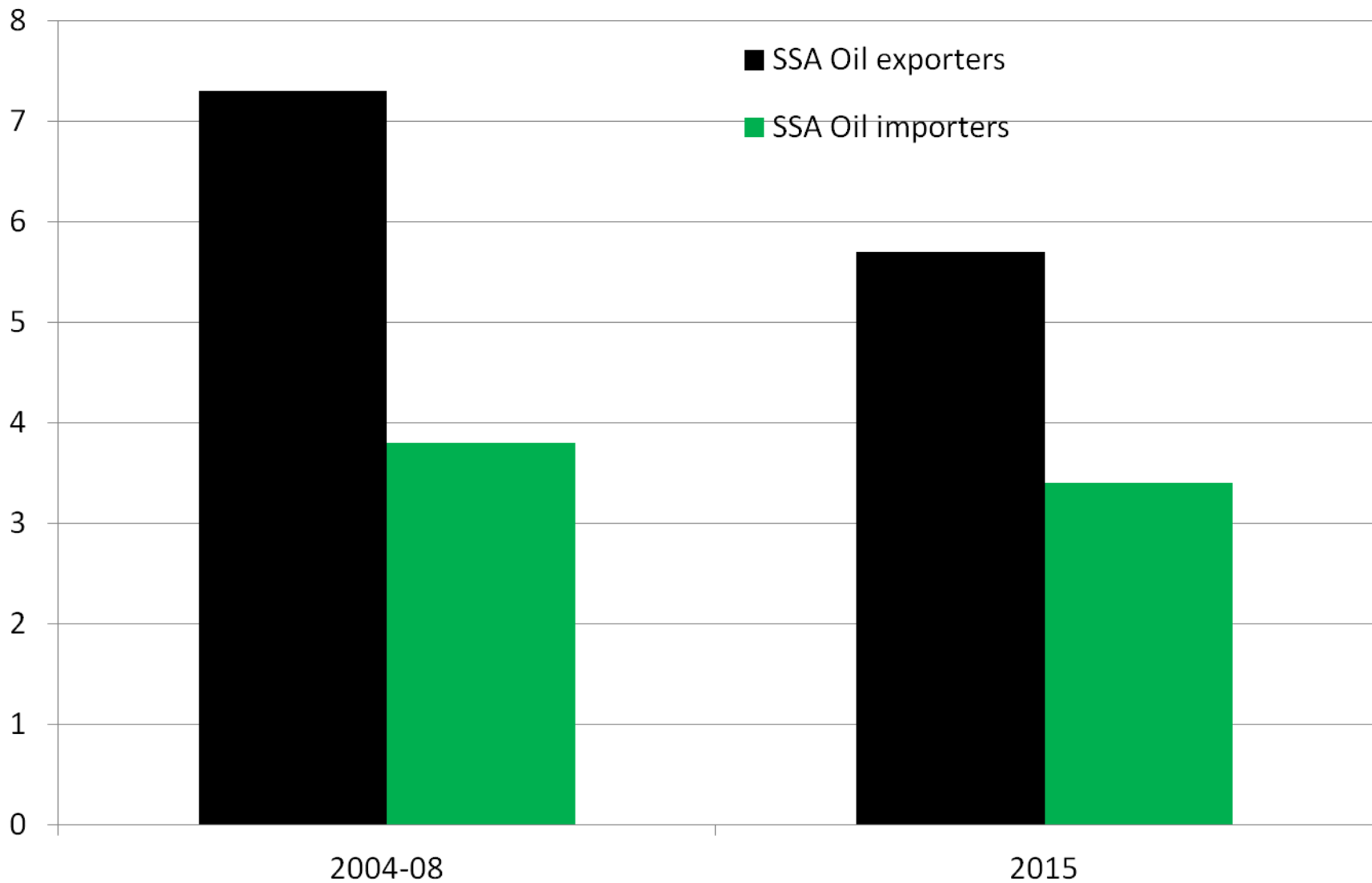


Fig 3: Foreign Exchange Reserves in Months of Imports of Goods and Services; 2004-08 average and 2015





Exchange Rate Flexibility

- SSA economies are suffering external current and/or capital account shocks, to which they must adjust;
- A flexible exchange rate allows adjustment to be less contractionary than a fixed exchange rate;
- In all open economies, nominal depreciation of the exchange rate will pass through to domestic prices
- But with sound monetary policy, the impact on domestic inflation can be curbed (see next slide)**
- The combination of a flexible exchange rate and a monetary policy which targets domestic inflation is feasible and probably optimal macroeconomic framework for most SSA economies, outside of the monetary zones.

Table 1: Annual Nominal Exchange Rate Depreciation against US Dollar (September 2014-September 2015) and Annual Headline Inflation (December 2015)

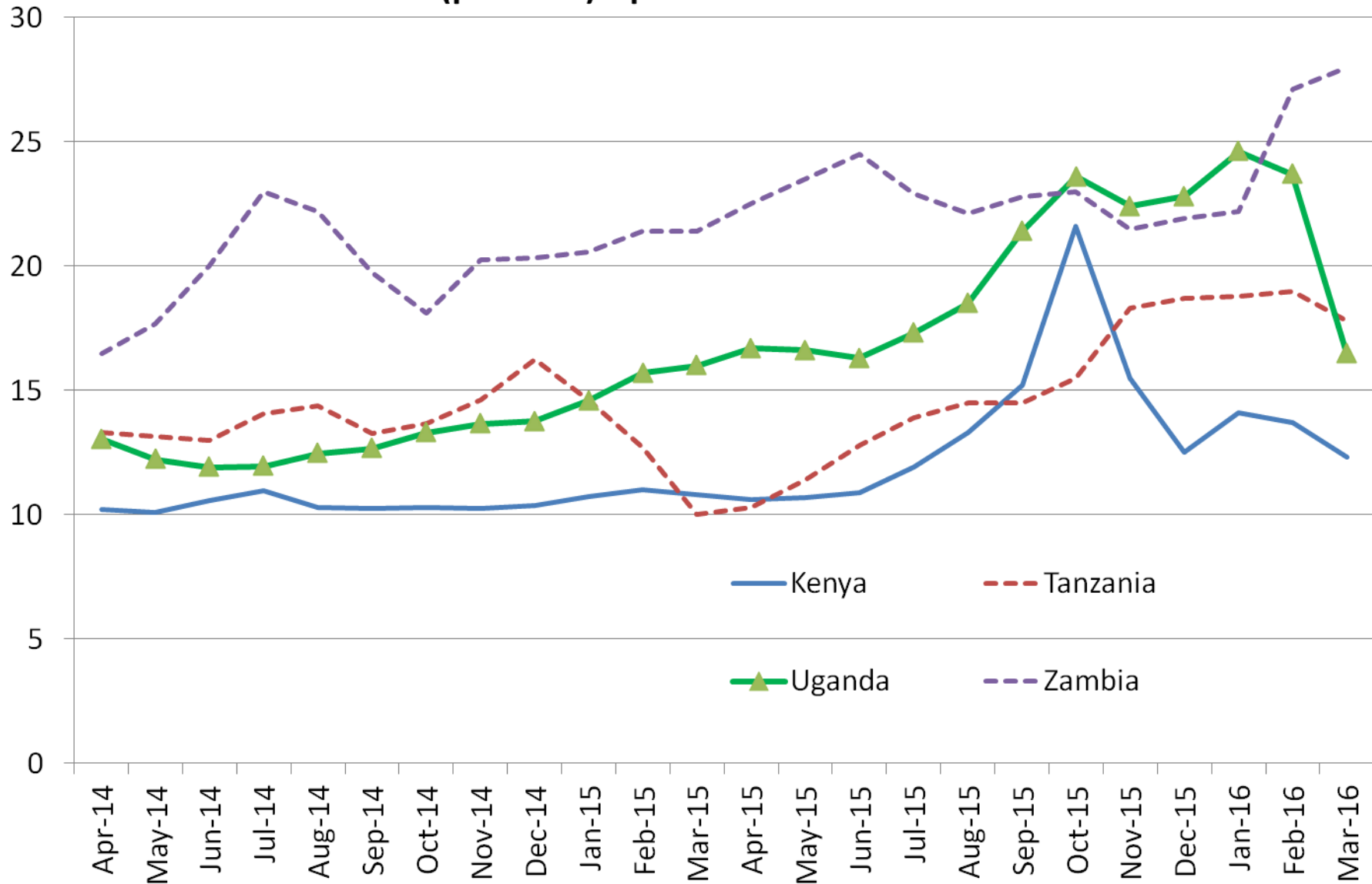
	Annual Nominal Exchange Rate Depreciation; 2015 (percent)	Headline Inflation; (percent)
Ghana	13.8	17.7
Kenya	17.3	8.0
Tanzania	29.4	6.8
Uganda	39.2	8.5
Zambia	92.5	21.1



Budget Financing Costs Can Increase Quickly

- Many SSA economies (especially frontier markets) have expanded their access to market finance for their budgets (Both from domestic and external sources)
- Spreads on sovereign bonds and domestic securities yields (see next slide) rose sharply in 2015 for several SSA economies;
- Medium term forecasts of financeable fiscal deficits may be less stable and predictable than fiscal planners would like;
- Prudence is needed in estimating how large future deficits can be, if they are to be fully financed from the market;
- If fiscal deficits cannot be financed from the market, they could jeopardize monetary policy and the achievement of inflation targets

Fig 4: Kenya, Tanzania, Uganda and Zambia One year Treasury Bill Yields (percent) April 2014-March 2016

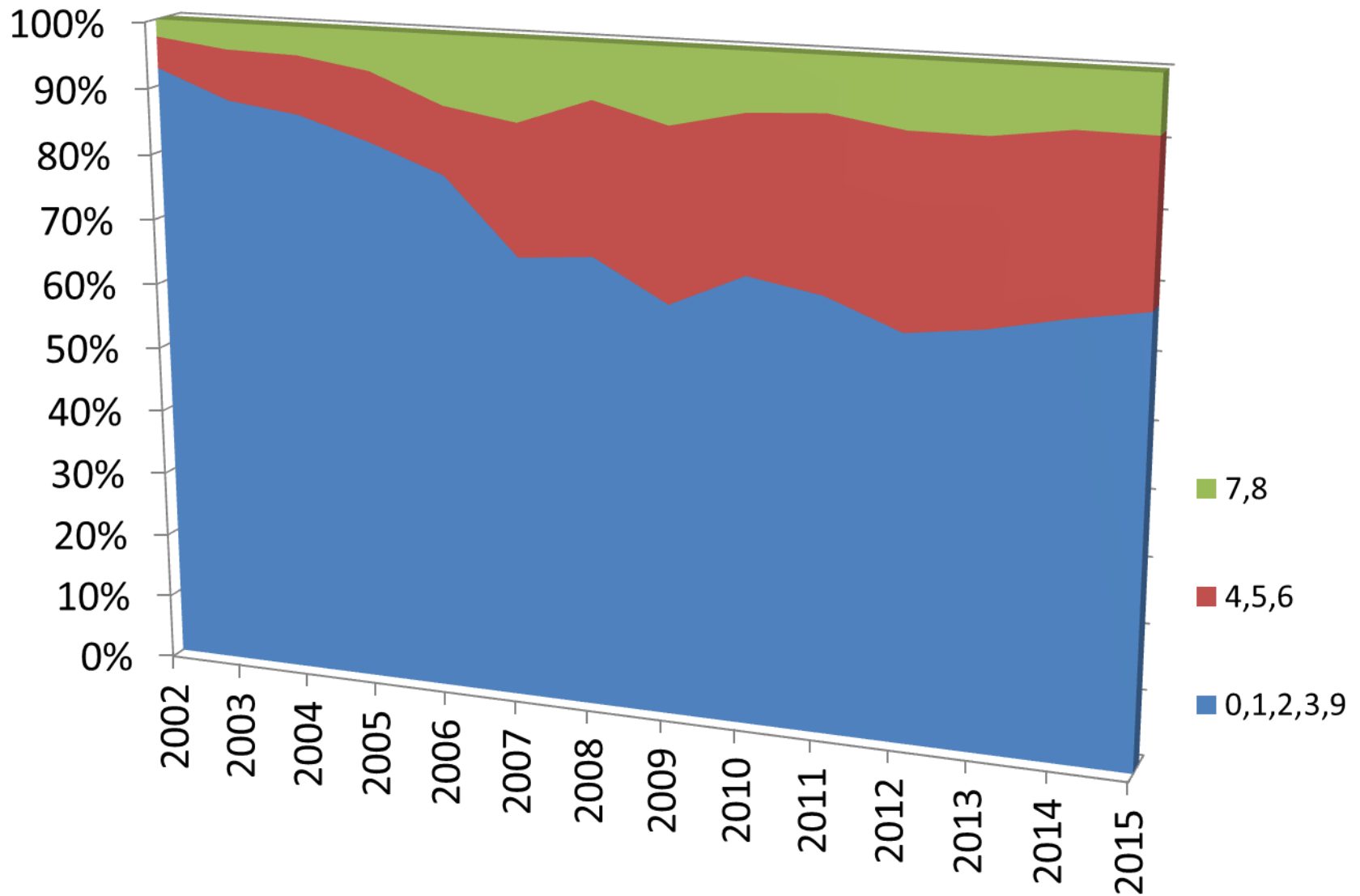




Diversification

- Problems of SSA commodity producers have lessons for future oil and gas producers in East Africa;
- Commodity producers in SSA have become more dependent on commodity exports over the last 20 years;
- Export diversification in East Africa has been boosted by regional integration;
- East African economies are relatively well diversified, but this will be put in jeopardy if the advent of oil and gas production drives up their real exchange rates. Rendering traded goods uncompetitive.

Fig 5: Ugandan Goods Exports by SITC Category (percent of total exports); 2002-2015





What is needed to attain strong real growth in SSA over the medium to long term?

- Rebuild policy buffers, for macroeconomic stabilization;
- Maintain competitive real exchange rates;
- Enhance regional integration;
- Build strong institutions.



Thank you