

**DISCUSSION POINTS FOR THE LAUNCHING OF THE IMF
REGIONAL ECONOMIC OUTLOOK OF THE INTERNATIONAL
MONETARY FUND (IMF)**

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1. At the onset, I thank the IMF represented here by the Madam Clara for the technical support and advice to the Ministry, the Governor Bank of Uganda for maintaining price stability (inflation and exchange rate), and the Hon. Minister of Finance, Planning and Economic Development for spearheading the growth and development for the country, and the EPRC for the research work that supports our policy direction.
2. The Regional Economic Outlook states that the Economic recovery in sub-Saharan Africa continues (picking up from 3% in 2018 to a projection of 3.5% in 2019), and future growth prospects remain positive for the medium term projected at an average of 5% excluding South Africa and Nigeria.
 - a. In the case of Uganda, the economy expanded by 6.1% in FY17/18 and is projected to maintain the momentum this financial year supported by continuous public investment and robust growth in services, industry and manufacturing sectors as well as agriculture. The outlook in the next 3-5 years is also

positive, and the economy is expected to grow in the range of 6-7% per annum on the average. The drivers of this growth include:

- i. Industrialization to promote exports using primarily agriculture as the base; this includes industrialization along the agricultural value chain, light manufacturing, and processing our minerals into finished products.
- ii. Increasing production and productivity in the agricultural sector by investing in quality inputs, extension services, storage facilities, access to markets by improving standards and quality of agro-processing, and better coordination of agencies involved in agriculture, easing agricultural finance including implementation of the guarantee scheme. Government is also boosting the capital base of UDB to be able to lend to agriculture as well as industry. In addition, Government is implementing targeted interventions in the Coffee Sector (Coffee Roadmap 2020), Tea, and fruit processing e.g the Soroti Fruit Factory, and supporting agricultural zoning and out grower model around the nucleus farmers.
- iii. Harnessing the low hanging fruits in the Tourism Sector by investing in the access roads infrastructure, marketing and training in hospitality, as well as boosting security around the country as a whole.

- iv. Strengthening local content and improving local production and supply capacities
 - v. Improving efficiency in the execution of public investment, to improve the returns on investment especially in the areas of energy, transport, agriculture, tourism, water for consumption and production, and in education. In this case, the MoFPED has launched an integrated Bank of projects which are ready for investment. The objective is for projects to be adequately assessed and be ready for execution before presentation for financing.
 - vi. Harnessing the benefits of regional integration through trade and strengthening intra-African trade. While pursuing export promotion and import substitution, it will remain Government policy to maintain trade openness;
 - vii. Improving labour productivity through skills development tailored to labour market demand; and
 - viii. Continued investment in security infrastructure across the country to maintain peace and security of persons and property.
- b. Heavy public investment embarked on in the recent years is aimed at enhancing the productive capacity of the economy by closing the large infrastructural gap, and with particular focus on the energy and transport sectors. Once completed, these

projects will contribute to enhancing productivity in Uganda, leading to higher growth. The overarching objective is to reduce the cost of doing business, increase competitiveness of the economy as a whole, and grow the private sector. Whereas Government is making specific interventions in a number of strategic areas, the Uganda economy will remain private sector led.

- c. The accommodative monetary policy stance has also played a key role in fostering a supportive environment for economic growth. This is particularly through keeping inflation within manageable levels (averaged 2.6% in 2018) as well as impacting on the cost of lending to the private sector (interest rates), partly driving the continuous recovery in private sector credit (the stock of private sector credit registered annual growth of 10.9% at end 2018 compared to 6.2% the previous year) which subsequently supports private sector investment and hence economic growth.
- d. In the medium to long term, expansion of the economic base is expected to be driven by the commencement of oil and gas production, and further diversification of the manufacturing sector to increase exports. Aware of the challenges faced by resource-dependent countries as pointed out by this issue of the Regional Economic Outlook, Government has recently inaugurated an Investment Advisory Committee to effect the

country's Investment Policy for Oil revenue and is working towards developing an appropriate fiscal rule for oil revenue management to ensure that the economy is cushioned against oil price shocks or volatilities that would otherwise require rapid fiscal adjustments.

- e. The positive economic growth prospects for the Sub-Saharan region over the medium term present a great opportunity for Uganda which has several trade links within the region. About 50% of Uganda's exports are to the sub-Saharan region. Uganda is a member of the EAC and COMESA which creates a larger market for our goods. However, we must invest in increase production capacities and skills to sully benefit from the opportunity that a larger market presents.
3. This outlook also highlights that Debt vulnerabilities remain elevated in some countries in the region, with 16 countries classified as having either high risk of debt distress (including Burundi, Zambia, Ghana, Ethiopia, etc), or being in debt distress (the case for South Sudan, Zimbabwe, Mozambique, etc).
- a. It identifies striking the right balance between addressing development needs and containing public debt within sustainable levels, as one of the risks to the outlook. Indeed this observation is correct. The IMF's most recent Debt Sustainability Analysis for Uganda rates the country's external public debt at low risk of debt distress. As at end FY17/18 Uganda's debt to GDP amounted to 41.5% of GDP, which is

below the sub-Saharan average estimated at close to 56% of GDP at end 2018. The report however notes that debt in Uganda has risen significantly over recent years, with non-concessional lenders (particularly China) driving this increase. As policy makers we remain cognizant of the need to ensure that public debt remains sustainable both in the medium to long term and financing of the fiscal deficit is met at the least cost possible and in a manner that does not jeopardize debt sustainability. Government continues to prioritize the use of concessional financing to the full extent available, over non-concessional resources, and leveraging blend financing through Export Credit Agencies (ECAs) which currently offer interest rates that are low, slightly above the concessional rates. These rates currently range between 0.8-1.2% per annum fixed rates.

- b. To keep debt sustainable, Government also aims to ensure that the recent improvement in economic performance is sustained. This will be achieved, in part, by ensuring that borrowed resources are used for projects with positive economic and social returns, and that projects are implemented in the most efficient manner. To this end, Government has put in place a number of measures aimed at improving the project cycle, including the establishment of a department responsible for project appraisal within the Ministry of Finance, Planning and Economic Development; strengthening the Development Committee, and maintaining a database of bankable projects.

- c. In summary, to ensure debt sustainability, the Government will:
- i. Prioritize borrowing for mainly infrastructure projects to address current infrastructure gap (Transport, Energy, Industrial Infrastructure and Water for Production).
 - ii. Continue to invest in export-oriented areas to boost exports in order increase foreign exchange inflow and also enable servicing of foreign exchange denominated debt. It is therefore pleasing to announce that we are already reaping the dividends of this intervention; as a result, Uganda recorded a positive trade surplus in the region of USD 471 Million for the fiscal year 2017/18.
 - iii. Ensure improved loan absorption by strictly adhering to the loan approval processes i.e. project preparation, negotiation and approval.
 - iv. Taking selective and strategic financing options to minimize financing risks with preference given to concessional financing.
 - v. Enhancing domestic revenue efforts. Government intends to address the challenges in this area through a comprehensive Domestic Revenue Mobilization strategy (DRMS), which aims to raise the revenue to GDP ratio by 0.5% annually. This increase in domestic revenue will provide Government with the additional resources for financing development projects and service its debt obligations annually.

- d. The Domestic Revenue Mobilization Strategy (DRMS) focuses on expanding the tax base as well as improving efficiency in tax administration to generate more revenue. Some of these policy and administrative actions of the DRM Strategy will be implemented in the budget of next financing year 2019/20. Some of the key interventions in the DRM Strategy include:
- i. Implementation of the system for rental income collections;
 - ii. Digital stamps to boost production taxes;
 - iii. Installation of point of sale machines for large traders;
 - iv. Increasing the capacity of scanners; and
 - v. Strengthening the tax audit function
4. The Regional Economic Outlook highlights an important issue of the likely tightening of global financial conditions, which could constrain financing and growth for many sub-Saharan countries. This is true especially when the interest rates in the USA starting rising, which is likely to happen soon. This will complicate Foreign Direct Investment flows; and increase the cost of borrowing externally, among others. However, interest rates in the Euro zone area are still lower, but could also start going up. This highlights the need to efficiently maximize utilization of externally sourced financing to implement our strategic investment before interest rates go up. However, this will be done in a manner that balances debt sustainability and addressing the development needs as pointed out in this Regional Economic Outlook. Whereas

the new IMF Debt Sustainability Analysis Framework for Low Income Countries increases the thresholds for debt sustainability and therefore creates more fiscal space to borrow, the Government will continue to be cautious and prudent in its borrowing strategy in order to achieve the objectives of addressing the constraints to faster growth, and maintaining debt sustainability.

5. This issue of the Regional Economic Outlook also raises the concern for containing fiscal risks from state-owned enterprises, improving debt management and resolution frameworks, and enhancing debt transparency

a. I do agree with the fund on the relevance of these concerns. In fact, Uganda takes great pride in transparency, and has taken huge strides to ensuring the publication of a number of reports on the performance of key economic variables, including debt. Some of the reports published on debt include the Annual Debt Sustainability Analysis Report, the Quarterly Debt Statistical Bulletin, the report on Loans, Grants, Guarantees and other Liabilities of Government, and the Medium Term Debt Strategy.

b. Proper debt recording and reporting ensures that policy makers have a holistic picture when they make decisions, and aids in proper planning and budgeting. It also helps us to estimate the available fiscal space, which leads to

better prioritization of Government projects and programs. All this leads to better and more streamlined implementation of the National Development Plan.

- c. Proper debt recording and transparency also mitigates the dangers that would arise from the discovery of previously undisclosed liabilities, which could include a spike in debt service obligations (taking resources from welfare - enhancing sectors like agriculture, health and education) and jeopardize relationships with international partners (as was recently the case with Mozambique).

- 6. As rightly pointed out in the REO, the issue of climate change are real. This has potential to heavily impact on agricultural production or output, and therefore constraint economic growth and the efforts to increase household incomes. The environment is critical for poverty reduction and sustainability of the Government growth strategy. In this regard, there is need to strengthen enforcement against destruction of the environment. In addition, Government is now prioritizing investment in irrigation infrastructure, including solar powered irrigation systems which will soon be implemented. Government has sourced financing for these investments, including in partnership with the private sector. Government is also advocating for climate resilient methods of farming such as green houses, and SMART agriculture, including fish cage farming, tree planting, among others.

7. Other downside risks highlighted include ;-

- d. Weaker global growth/ demand especially arising from trade tensions between the United States and China and several advanced economies - this is likely to impact on Uganda particularly through a reduction in Foreign Direct Investment and Remittances, as well as a slowdown in export demand.
- e. Sharper than Anticipated Growth Slowdown in China whose economic ties with the region have deepened markedly in the recent years both through trade and financial linkages. As at end June 2018, 24% of Uganda's external debt stock was from China alone.
- f. Heightened Security risks especially brought about by civil conflicts e.g in South Sudan. Conflicts disrupt economic activity, and are a huge setback to economic growth as they result into higher expenditure to restore the property destroyed during the chaos. South Sudan is a major export destination for Uganda and this unrest resulted into a slowdown in trade to the country. In this regard, our strategy is support peace efforts in the region.