

BANK OF UGANDA



**Discussion points for Dr. Louis Kasekende,
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**At the Presentation of the IMF's April 2019 REGIONAL
ECONOMIC OUTLOOK for Sub-Saharan Africa**

Sheraton Kampala Hotel, Uganda

May 22, 2019

Introduction

Let me start by thanking Ms Clara Mira for the very insightful presentation which in my view clearly spells out some good news as well as bad news. The title of the presentation, “Recovery amid Uncertain Times” is so telling on the state of our economies and what to expect going forward, at least over the medium term.

In my brief remarks, I will focus on what I believe are the critical positive findings and the not so good news in the report. I will conclude with the key take-away for Uganda.

First the Good news:

- a) There are African countries on a recovery path with rising income per capita (some are resource rich while the majority are resource poor countries)
- b) Growth is strong in the non-resource intensive countries. This means these countries have found other anchors for growth beyond mineral resources
- c) Also, fiscal policies have been supportive of growth and stability especially in resource poor countries. For instance, some countries have non-commodity revenue fiscal balances that are positive which is critical for enabling implementation of countercyclical policies in the downturn and maintaining medium term macroeconomic stability. We need fiscal policy to remain prudent otherwise we risk reversing all the gains made.
- d) In addition, we have reduced conflicts in the region, providing a conducive environment for trade and other economic activities. Peace and stability must be preserved at all times and perhaps at all costs.

On the bad side;

- a) Africa is still challenged by diversification and dependence on primary commodities that are subject to high volatility in prices. This is an indication that we have failed to get a very good anchor for sustainable high growth rates and there is minimal structural transformation, the sort of change that underpinned the development of the Asian Tigers.
- b) Large economies in Sub Saharan Africa (SSA) such as Angola, Nigeria & South Africa are expected to be more sophisticated and growth supportive of their relatively smaller neighbors. If the large entities that are expected to anchor the regional trade aren't faring well as we have observed in Clara's presentation, then the benefits of regional integration may be severely impacted
- c) Also worrying is that when you look forward, the recovery looks marginal and the job creation is very weak, meaning there is a substantial threat to stability (risk of civil strife within countries is high)
- d) Debt levels: It is worrying that almost 16 countries are categorized in high risk and 7 of these are in debt distress. It is worrying because debt restructuring through debt relief is unlikely more so, because we have now a substantial portion of the debt being contracted from private sector lenders and not the multilateral lenders that offer highly concessional terms and a longer payment horizon. There is therefore a major risk of debt default which could undermine stability, future access to international financial markets and growth objectives.
- e) The heightened uncertainty in policies of advanced economies and their attendant impact on international financial markets means that our fiscal policy authorities are faced with unpredictability of budget financing envelopes. It is thus important for fiscal policy authorities to be prudent in designing expenditure plans especially in estimating the levels of deficits that can be fully financed from the market and therefore limit or at best eliminate any recourse to monetising of the deficit which poses danger to macroeconomic stability.

What I do see from the report and presentation as essential take away for Uganda?

- a) Although Uganda remains at low risk of debt distress, our revenue effort is not yet at a level that allows much room to take on much higher debt, especially commercial debt, given its implications on debt servicing costs.
- b) Inflation targeting and liberalized capital and current account have been supportive to stability and growth. These are part of our success stories and we should preserve these key ingredients of our growth story.
- c) Successful resolution of banks, even those considered systemically important, is good for financial stability and ultimately having a financial sector that properly executes its financial intermediation role to aid growth.
- d) Infrastructure investment spending can provide much more boost to growth if all the investment management challenges as identified by Clara can be resolved
- e) With regard to the lack of an effective fiscal anchor for Uganda, that is an issue that I hope my co-discussant can extensively address. What I can say from a macroeconomic stability perspective is that coordination of monetary and fiscal policies and the pursuit of time-consistent policies are unavoidably crucial.
- f) The industrialization drive must be strengthened to anchor the structural transformation agenda and deal with the job scarcity challenge. What form of industrialization should we pursue? I wish to opine that labour intensive manufacturing presents a viable stepping stone for absorbing the millions of educated and unemployed youths through linkages with the local economies where industries are established. The success of such a strategy hinges on commercialization of agriculture so that industries are assured of steady supply of quality inputs.

- g) We should also be prospecting getting up the value chain as regional partners instead of competing with each other. A regional industrialization strategy as opposed to individual nationalistic endeavors, that may trigger the rather infamous race to the bottom, therefore could be prioritized.
- h) Further to the point above, we must critically undertake steps to nurture and expand domestic or regional firms to underpin the structural transformation drive of our economies. Such steps may include improving the financial and business skills of owners and managers of the small and medium sized domestic firms. Otherwise, we risk placing our growth prospects fully reliant on foreign capital flows that can reverse at the slightest sign of instability.

Finally there is the double edged sword that is integration into international capital markets. As indicated in the report, there is greater integration of African economies into the global financial markets which has increased access to financing for growth. However, this integration is also a source of volatility especially with regard to the short-term capital flows. There is need therefore to be pragmatic in managing capital flows and their effects on stability and ultimately growth objectives. I want to believe that Bank of Uganda has been successful thus far in maintaining both stability in the foreign exchange market and also sufficient reserve buffer.

Merci beaucoup