

Fiscal Adjustment and Economic Diversification

Regional Economic Outlook for Sub-Saharan Africa



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International Monetary Fund
Kampala, December 4, 2017

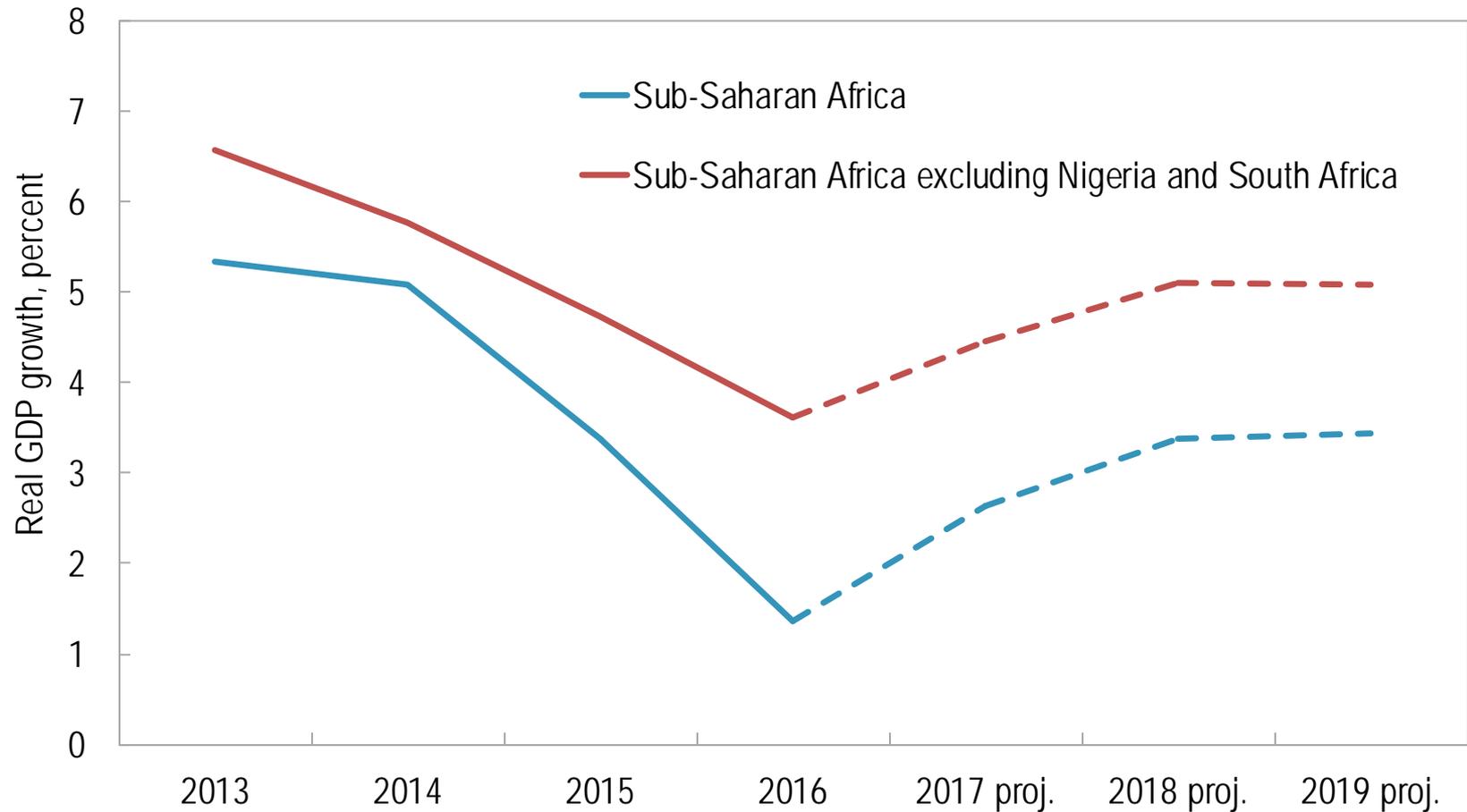
Outline

1. A modest growth recovery in SSA
2. Factors underpinning the subdued outlook
3. Policies to strengthen the recovery
4. EAC considerations
5. Uganda
6. Diversification

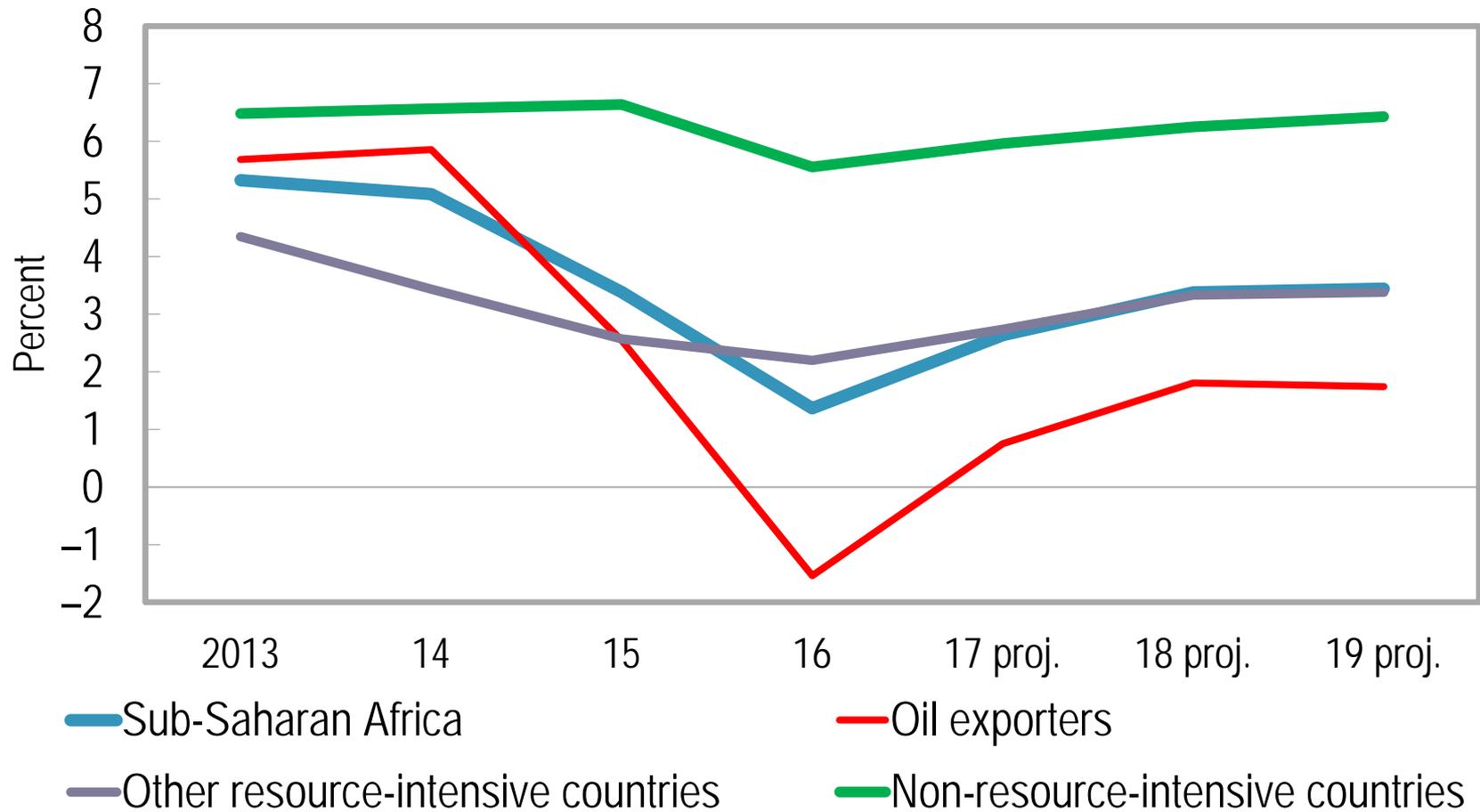
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1. **A modest growth recovery in SSA**
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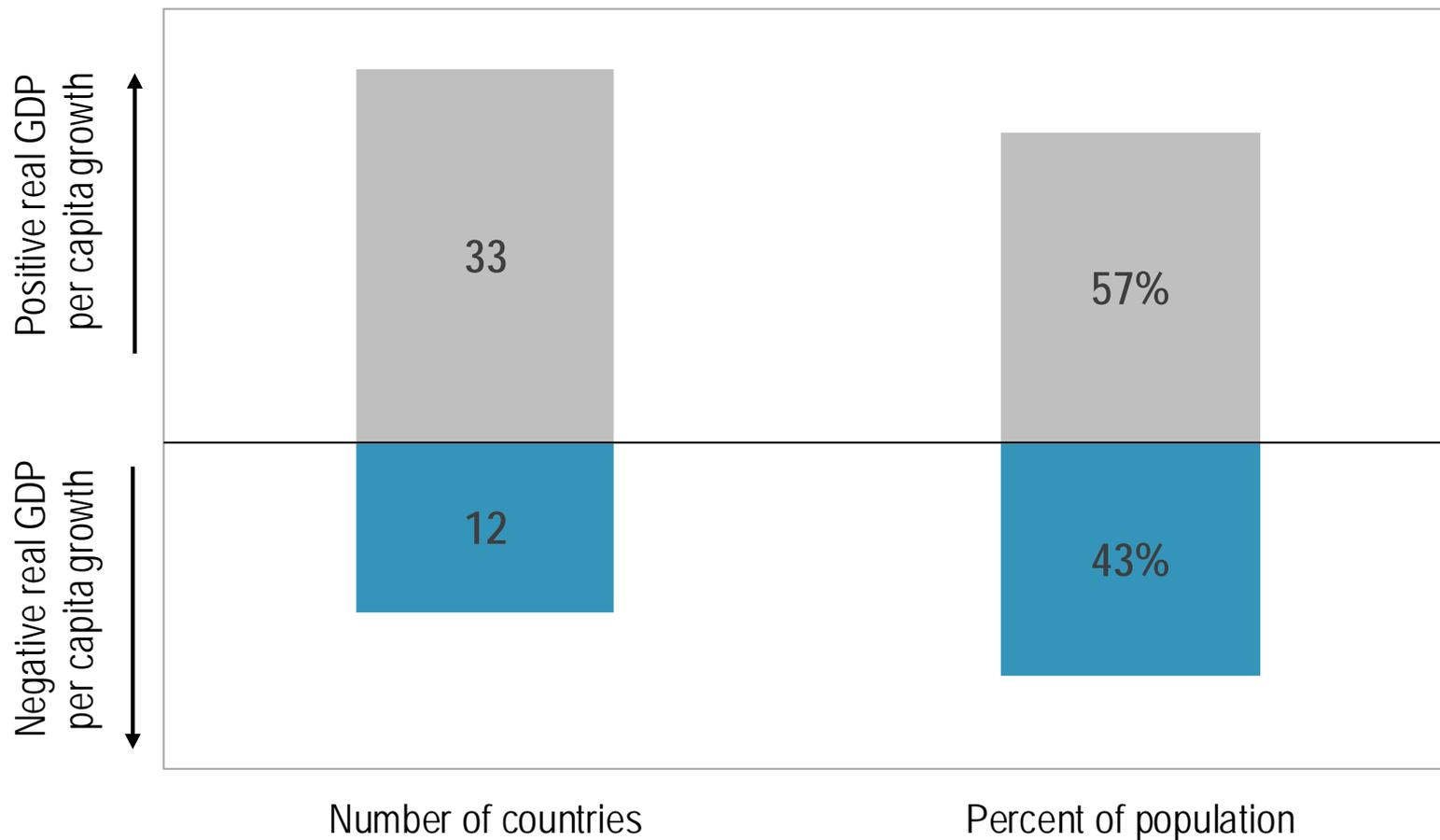
Growth has picked up, but is set to remain subdued



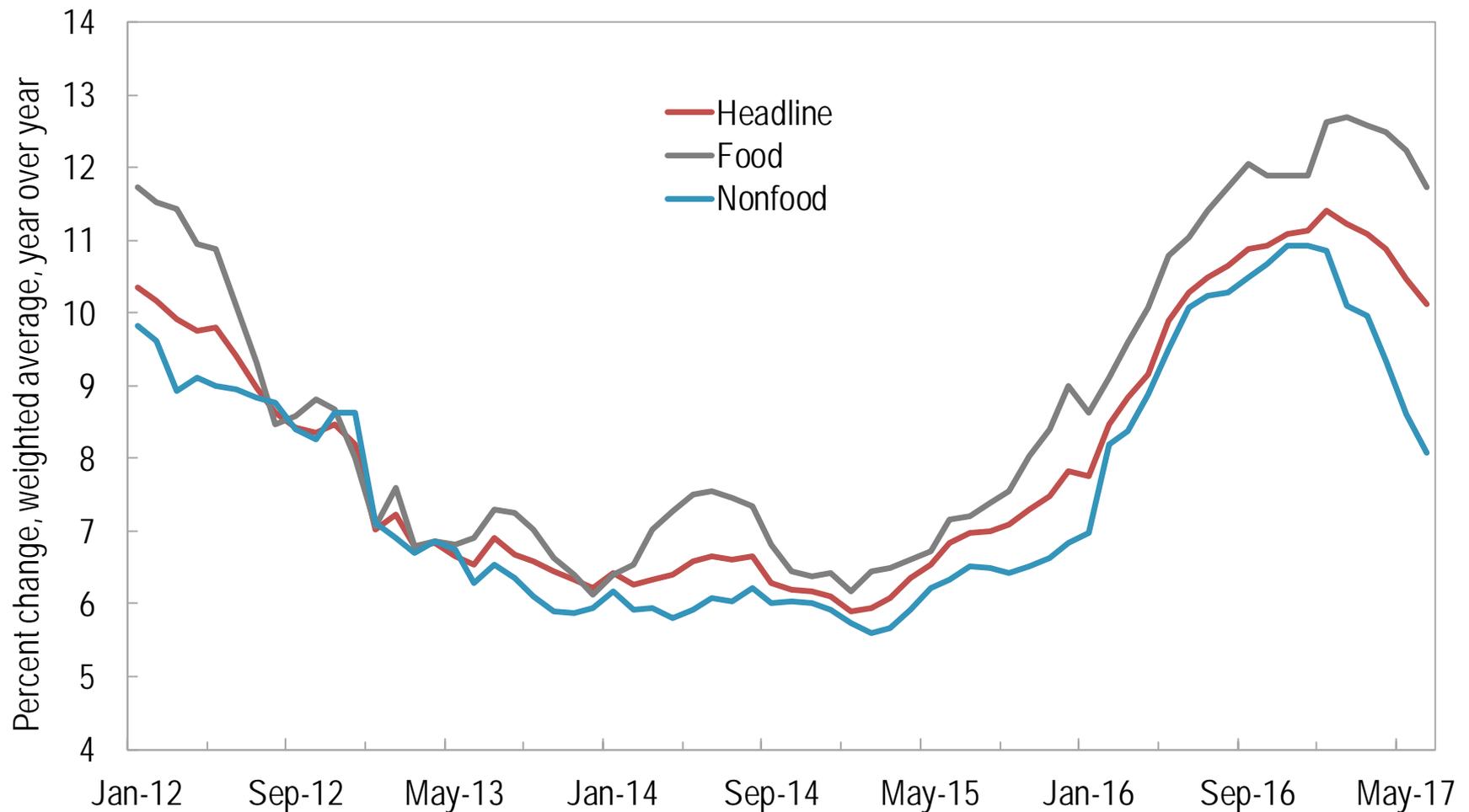
Growth has picked up, but is set to remain subdued



The recovery is not sufficient to raise GDP per capita in many countries



Inflationary pressures are receding



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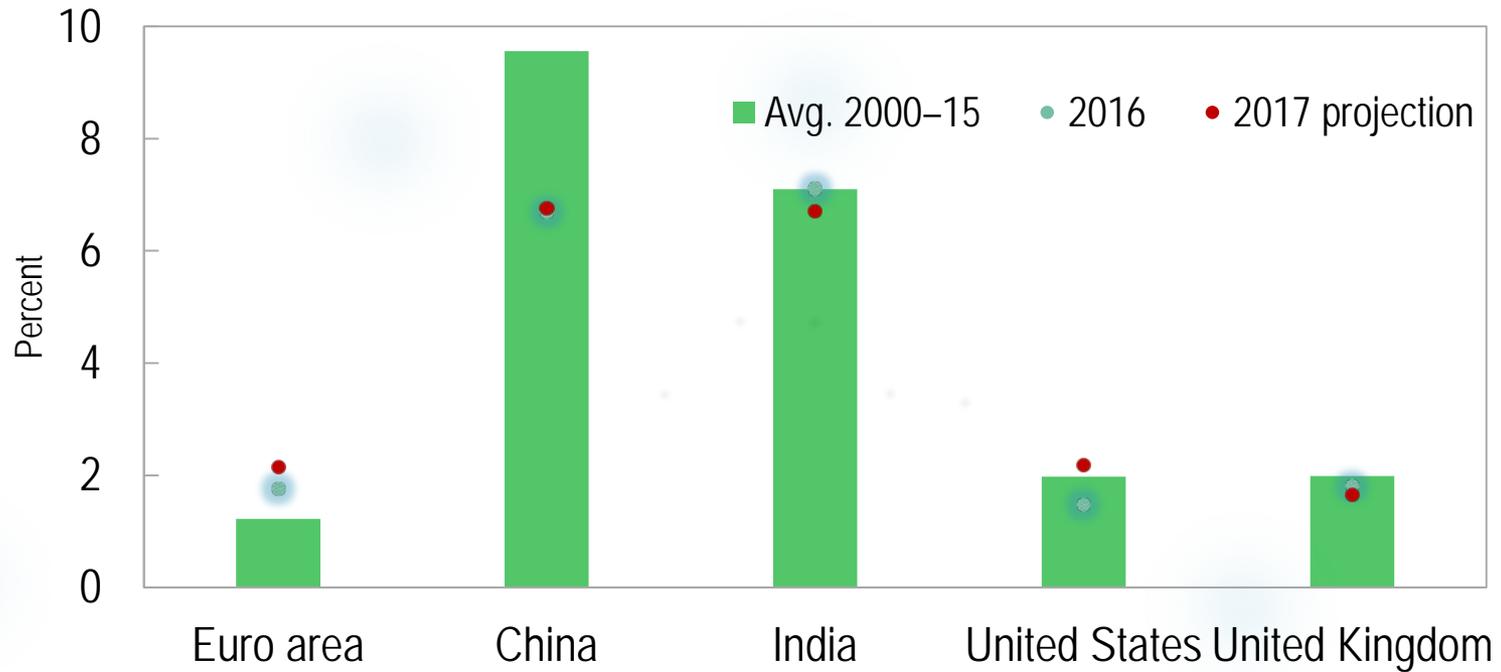
1. A modest growth recovery in SSA
2. **Factors underpinning the subdued outlook**
 1. **External Factors**
 2. **Domestic Factors: Fiscal, Current account, Monetary**
3. Policies to strengthen the recovery
4. EAC considerations
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The external environment is gradually improving

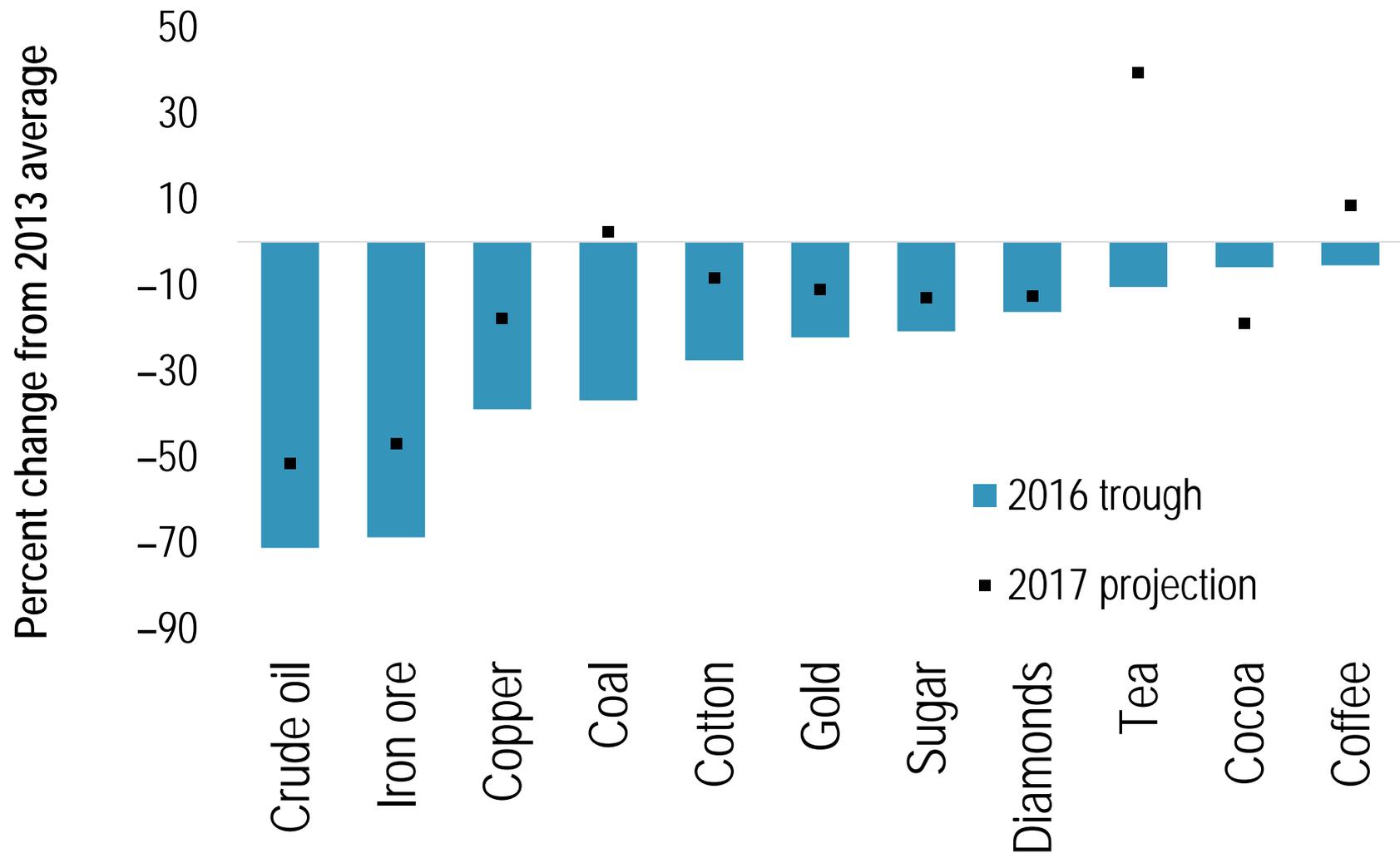
	World	Advanced	Euro Area	EMES	LIC
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2016	3.2	1.7	1.8	4.3	3.6
2017	3.6	2.2	2.1	4.6	4.6
2018	3.7	2.0	1.9	4.9	5.2

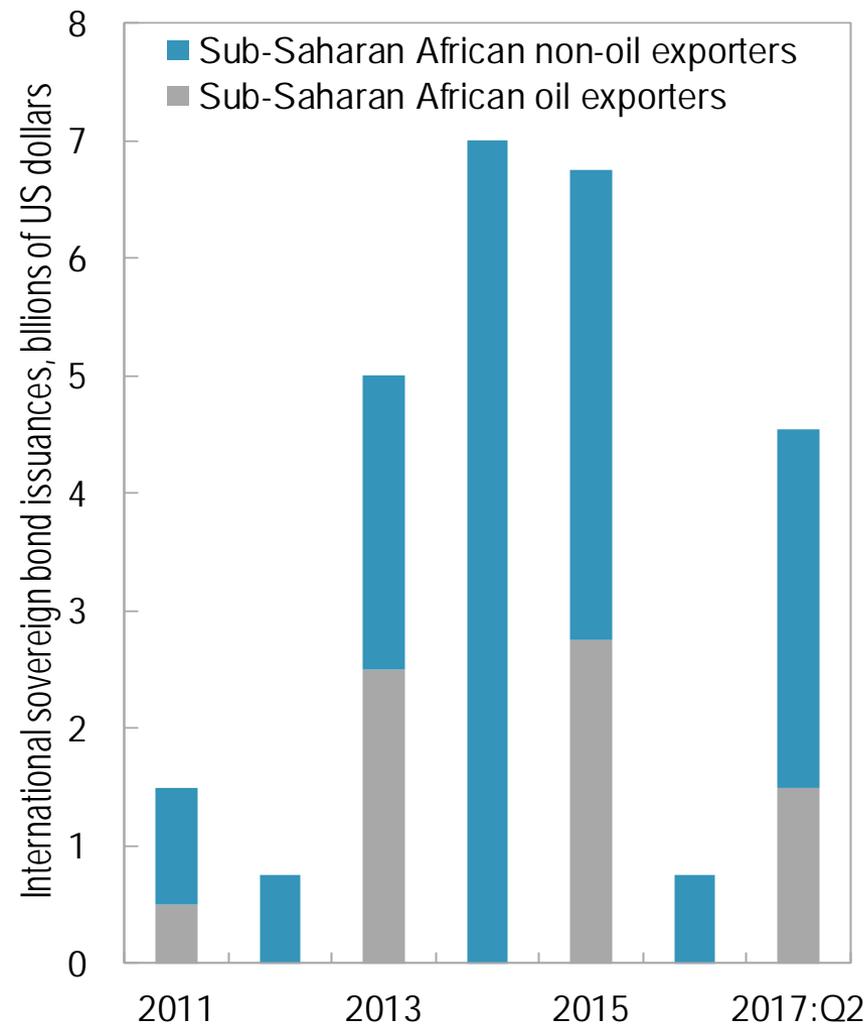
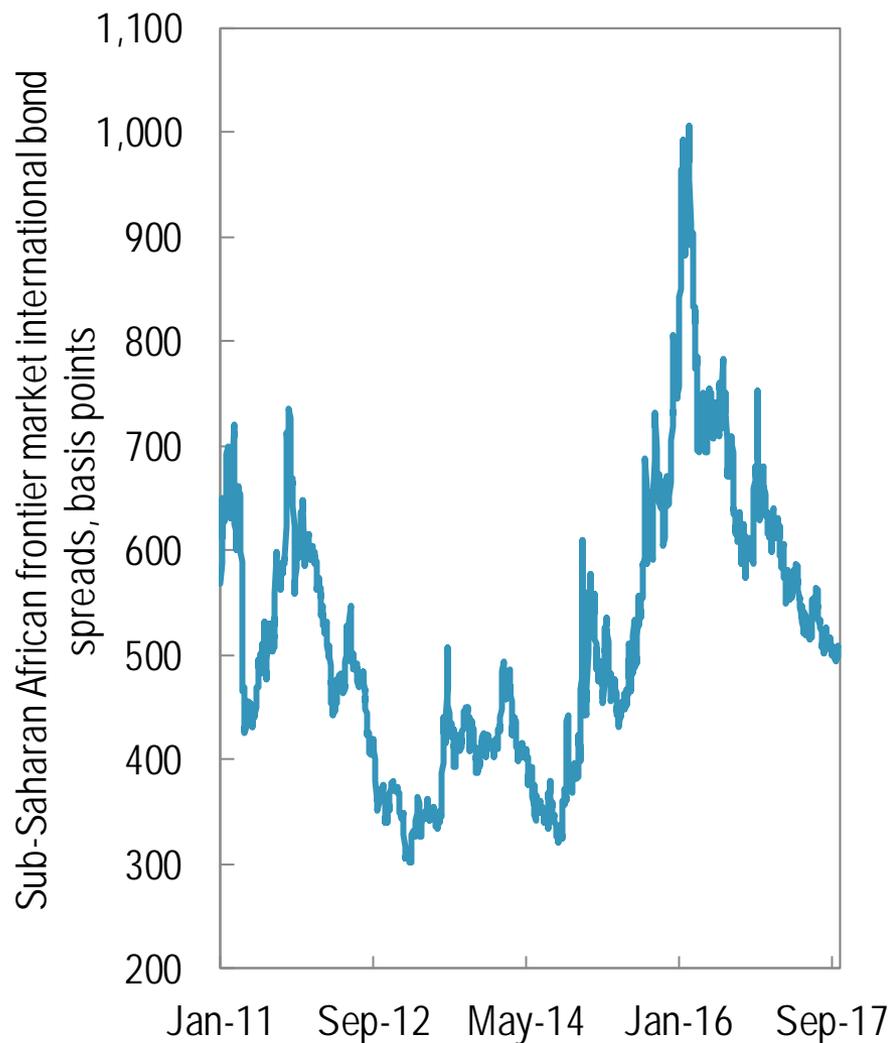
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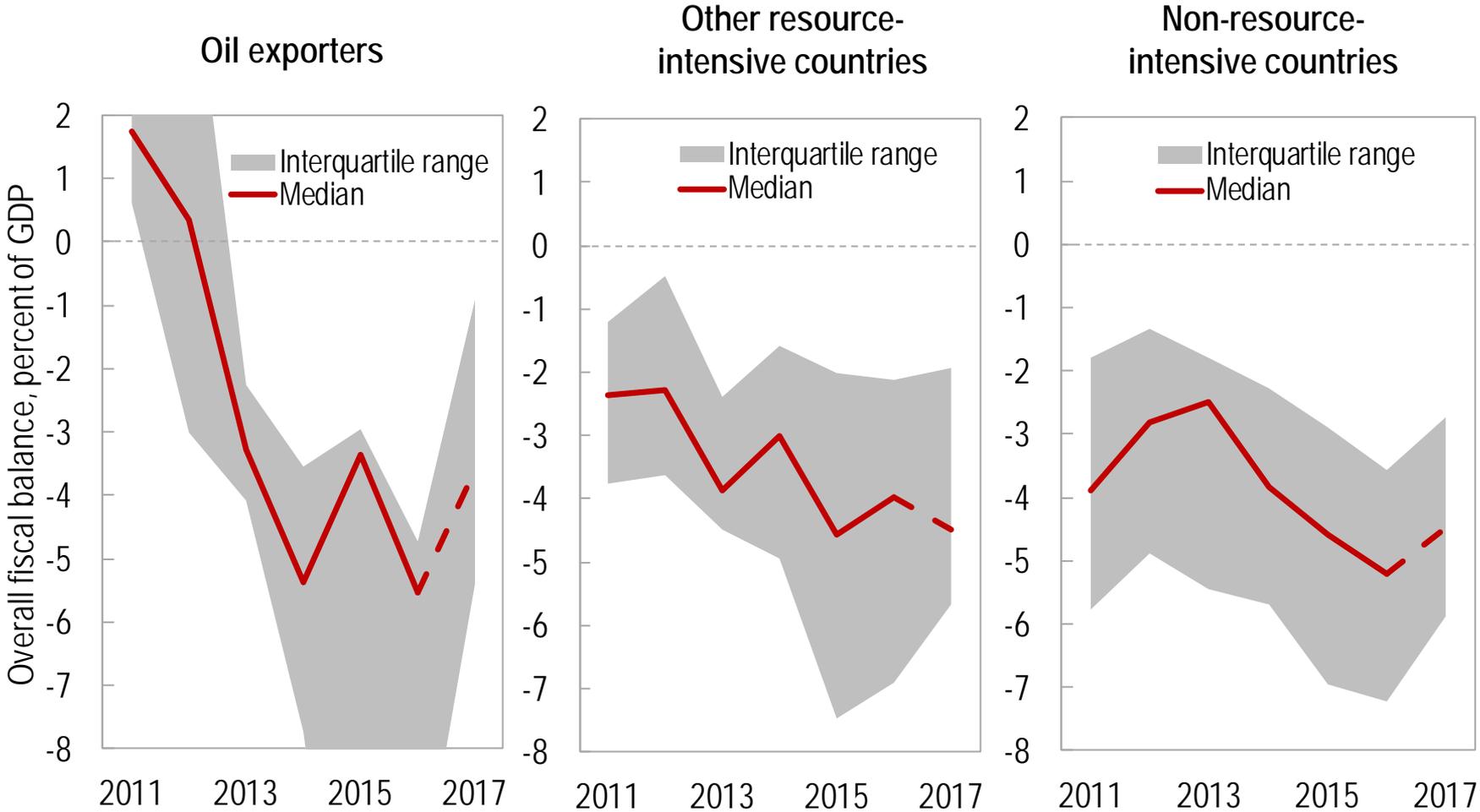
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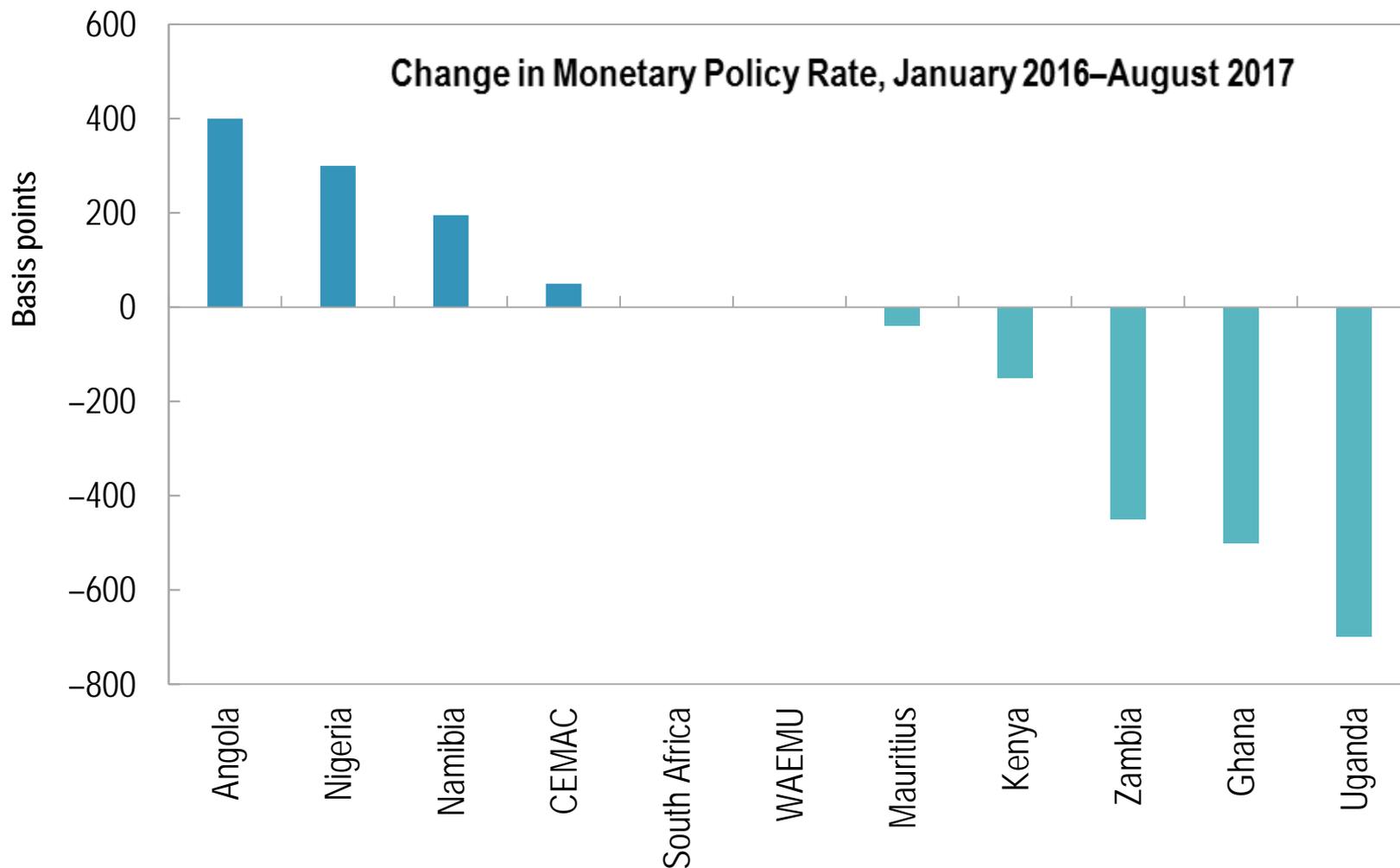
Easier financing conditions have brought frontier economies back to the market



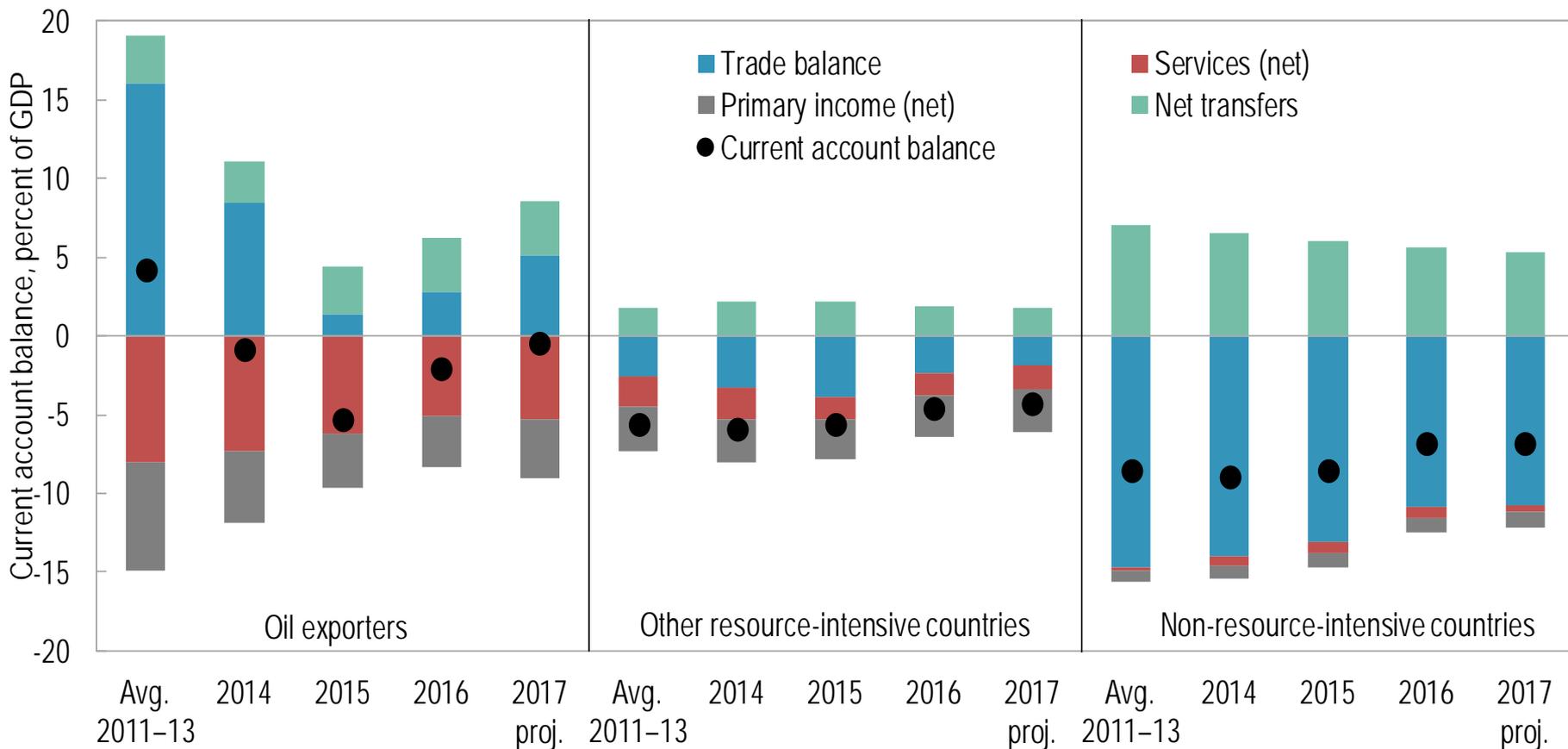
Fiscal deficits are stabilizing



Monetary Policy has responded to Inflationary pressures



Current account balances have improved



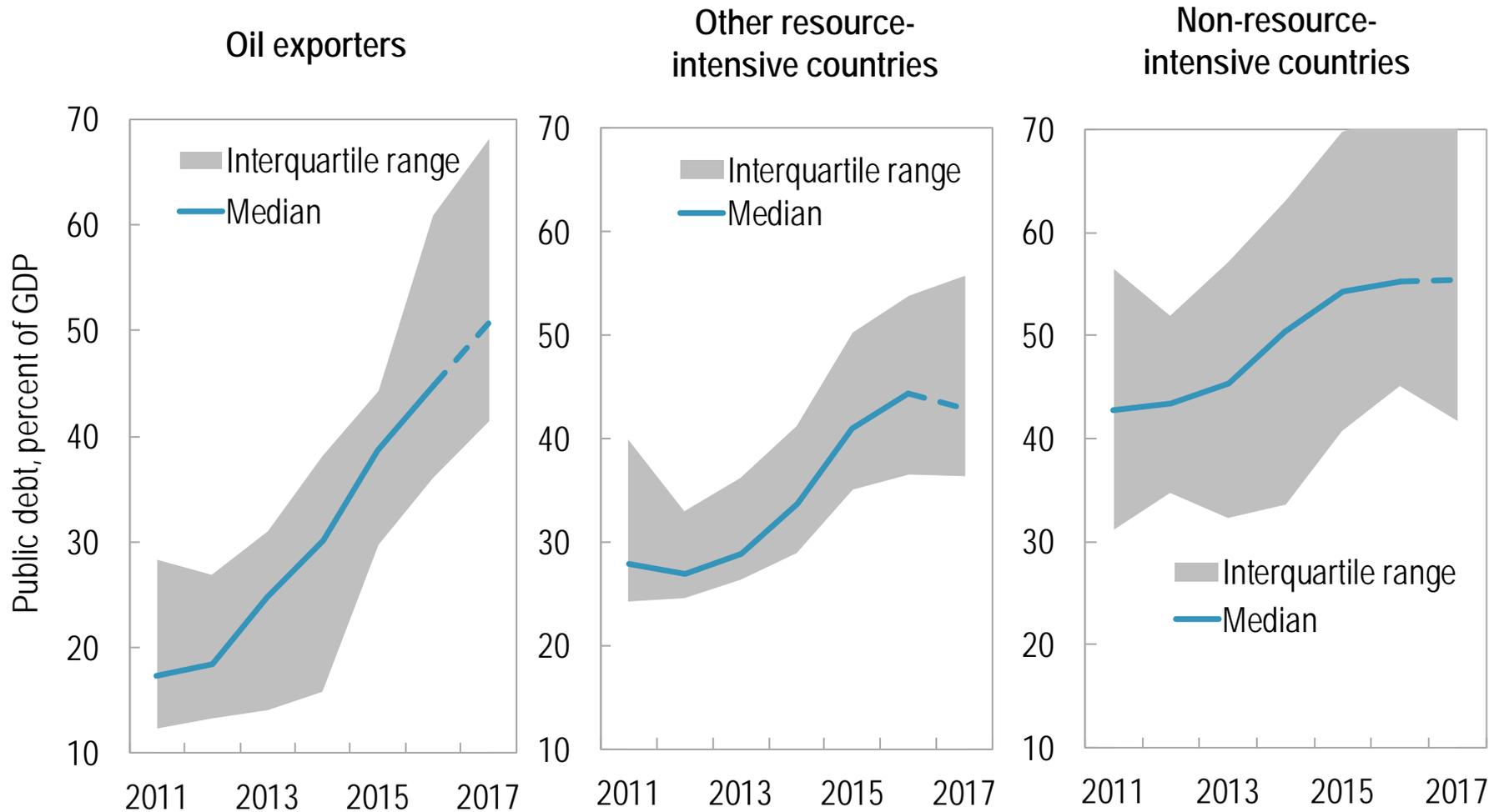
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1. A modest growth recovery in SSA
2. Factors underpinning the subdued outlook
3. **Policies to strengthen the recovery**
 - **Addressing debt vulnerabilities**
 - **Emphasis on revenue mobilization**
 - **Fostering economic diversification**
4. EAC considerations
5. Uganda
6. Diversification

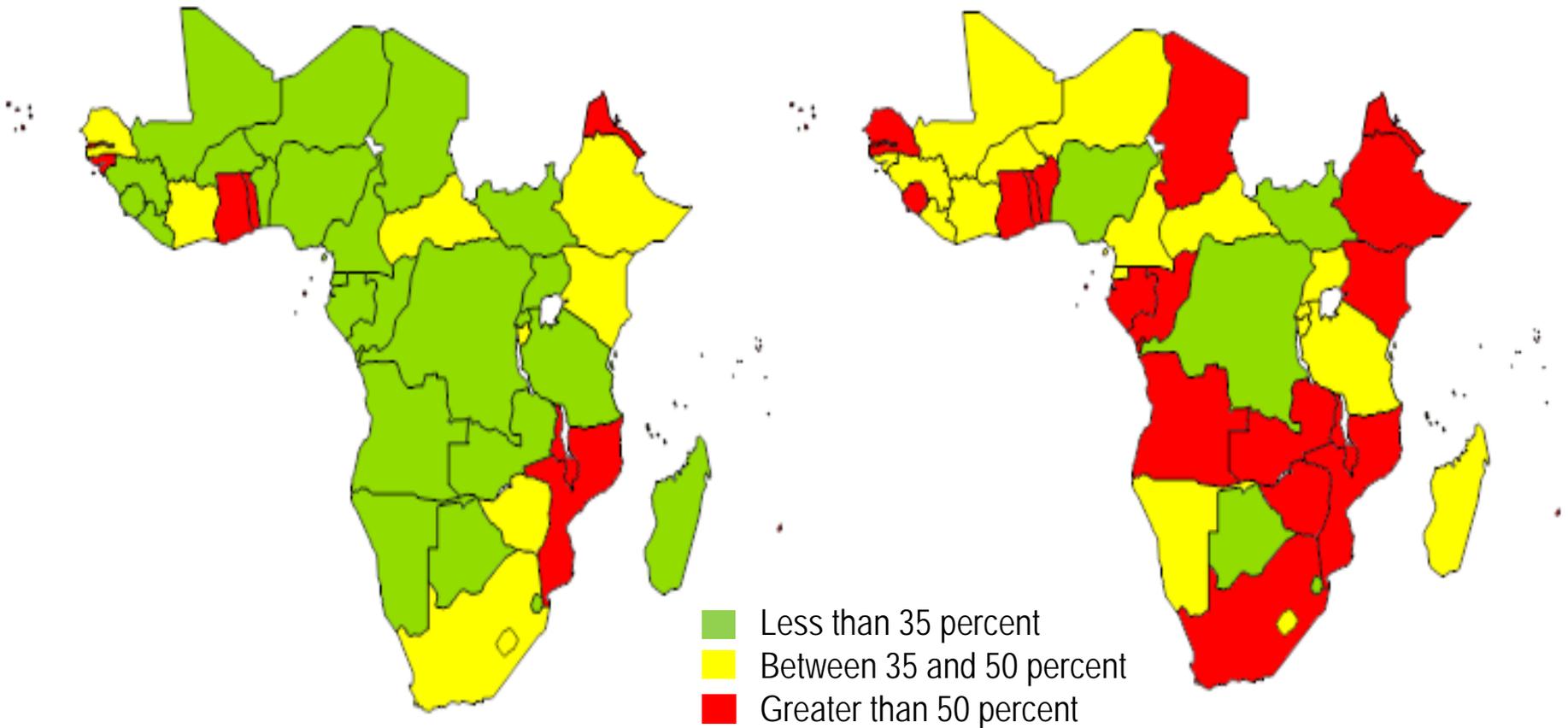
Debt stocks have risen throughout the region



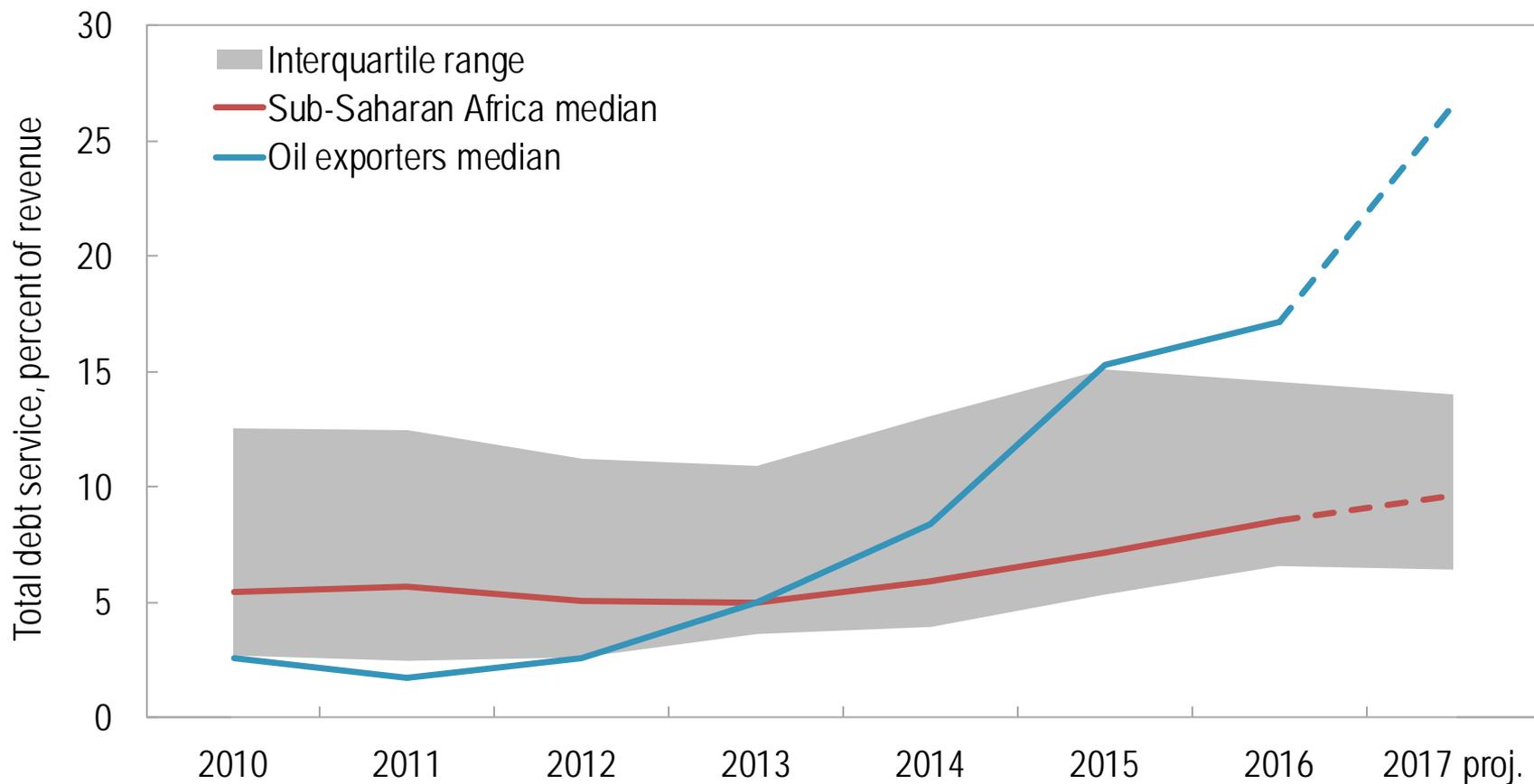
..in most countries.

2013

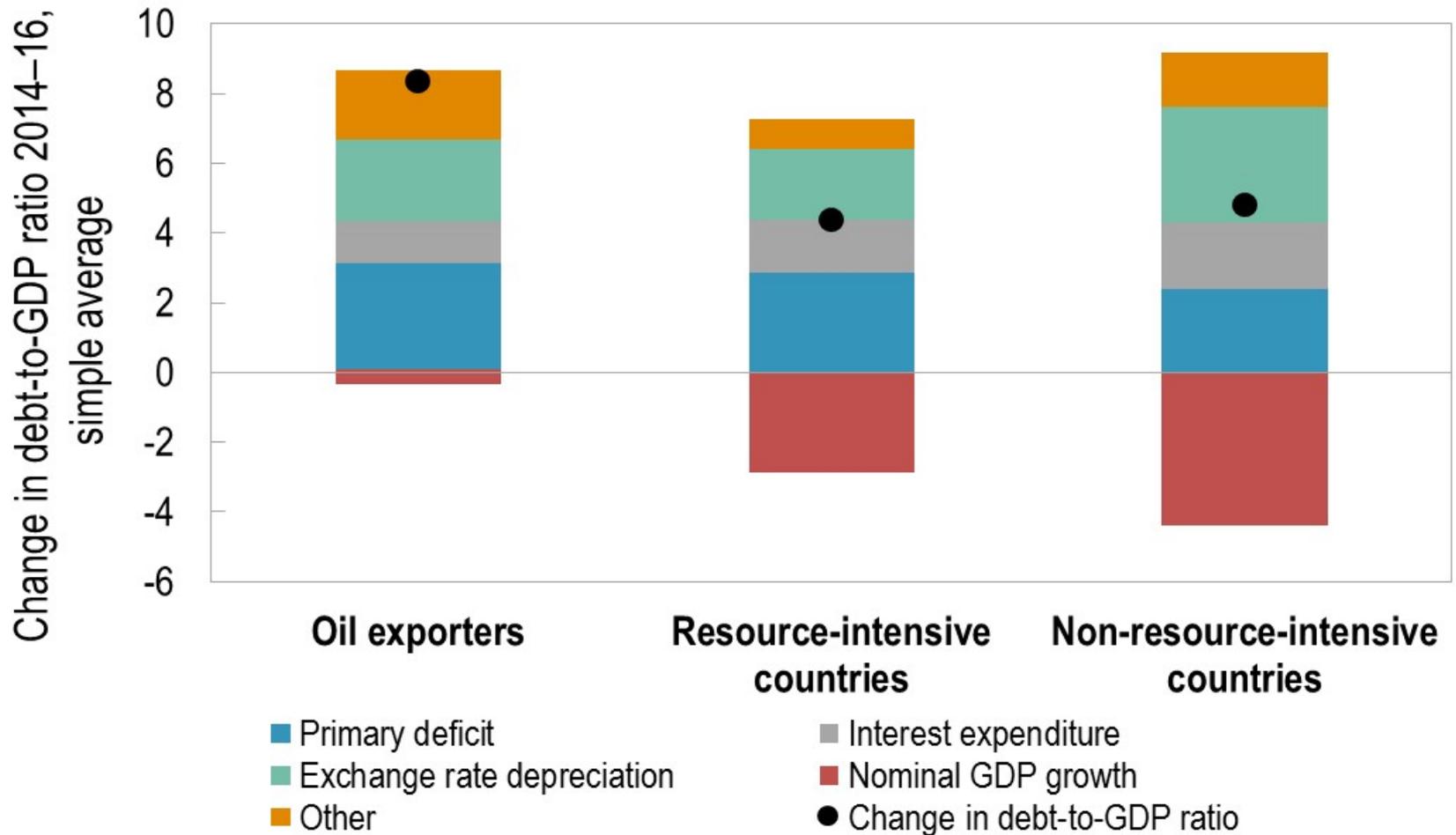
2016



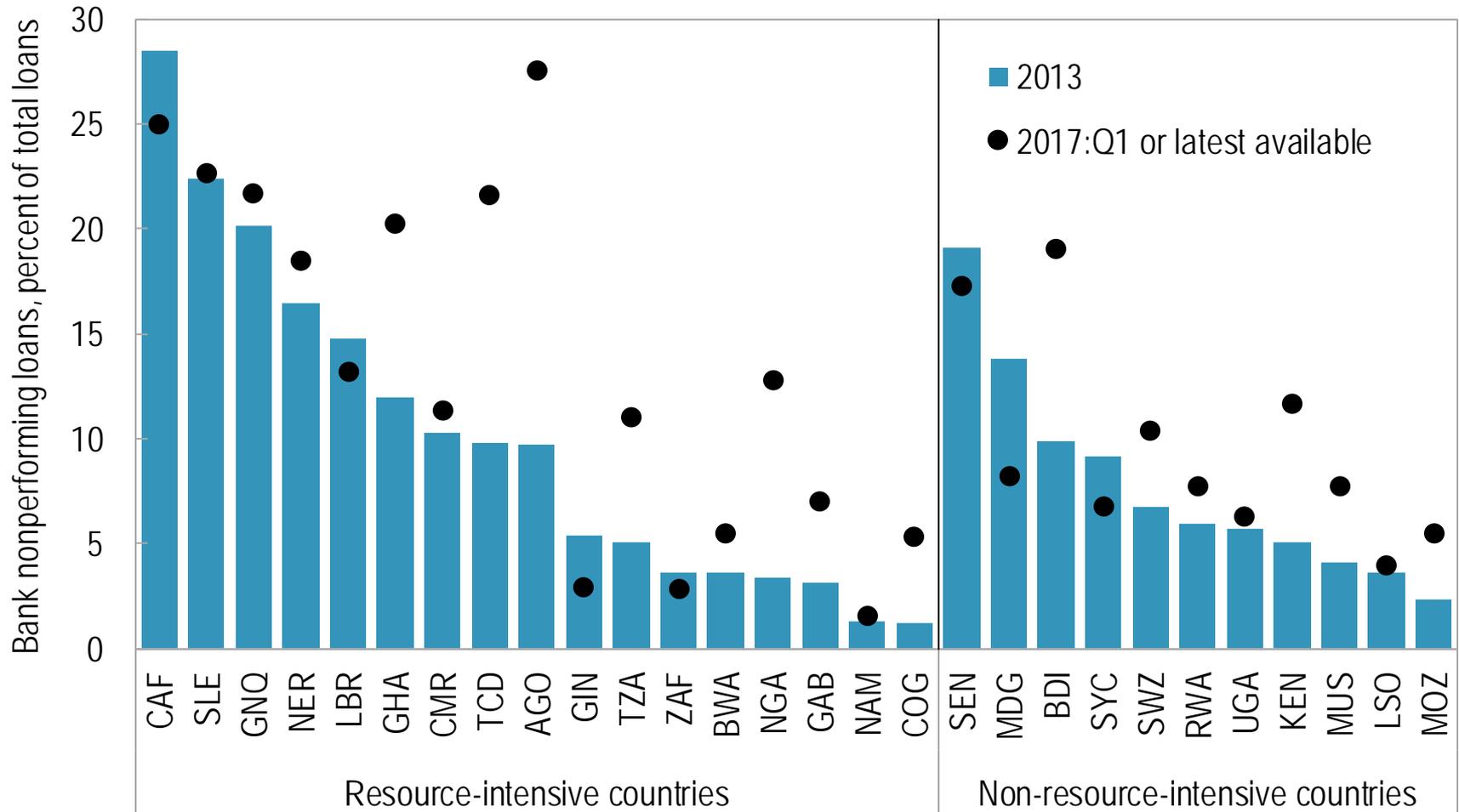
Debt service costs have increased



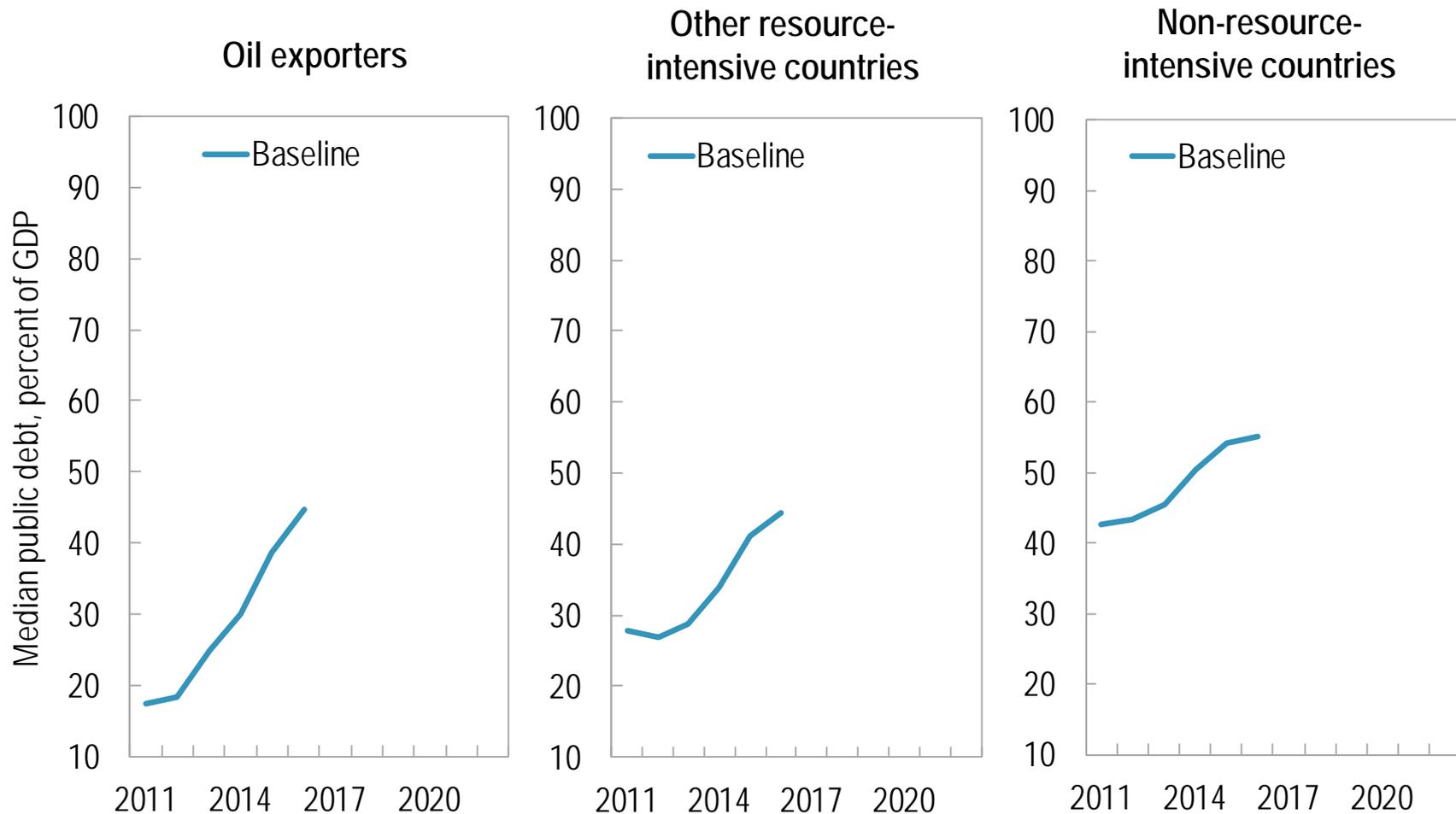
Driven by large fiscal deficits and depreciation



Fiscal pressures pose risks to an already weakened financial sector



Fiscal consolidation plans need to be implemented

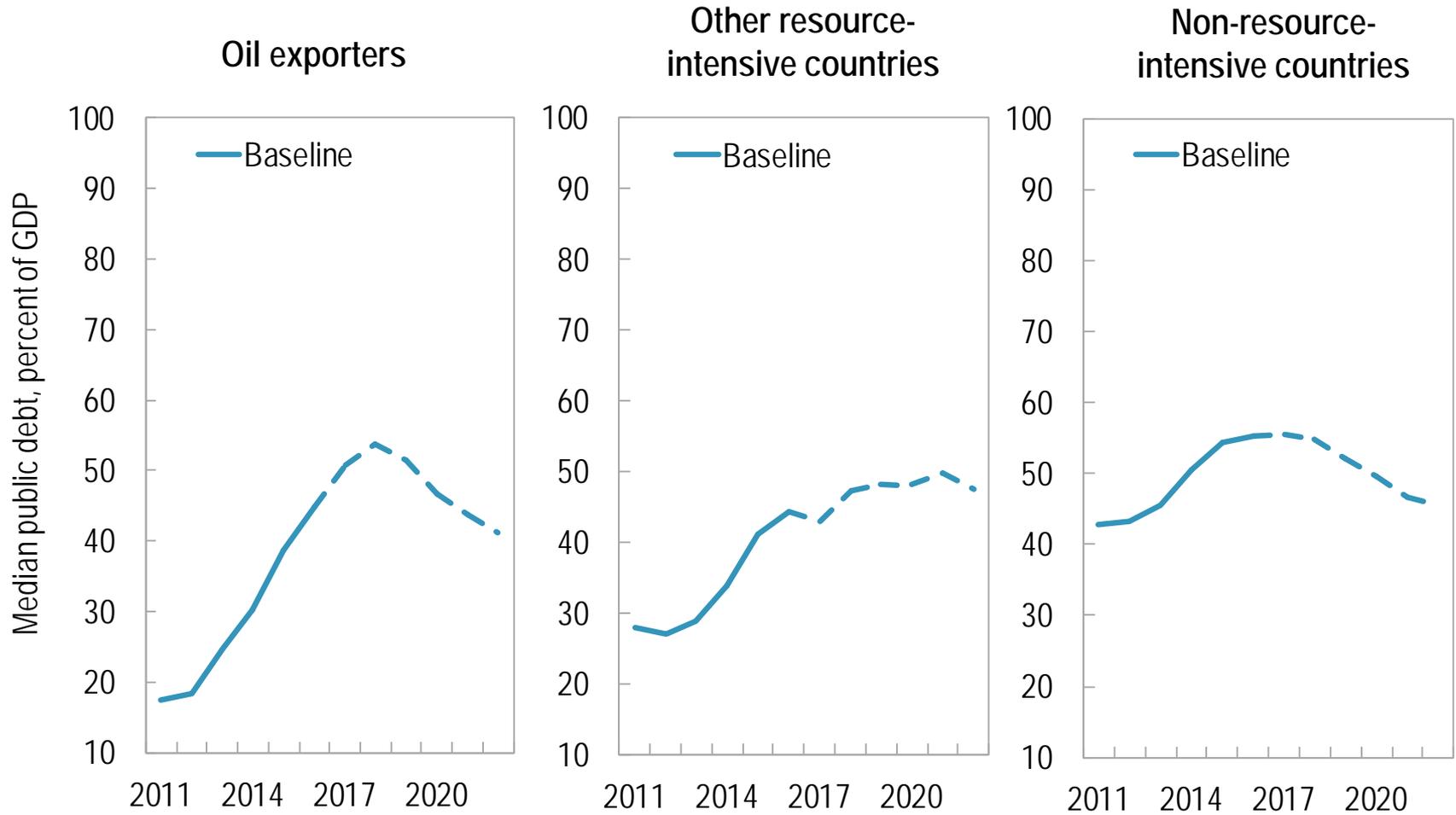


Addressing debt vulnerabilities

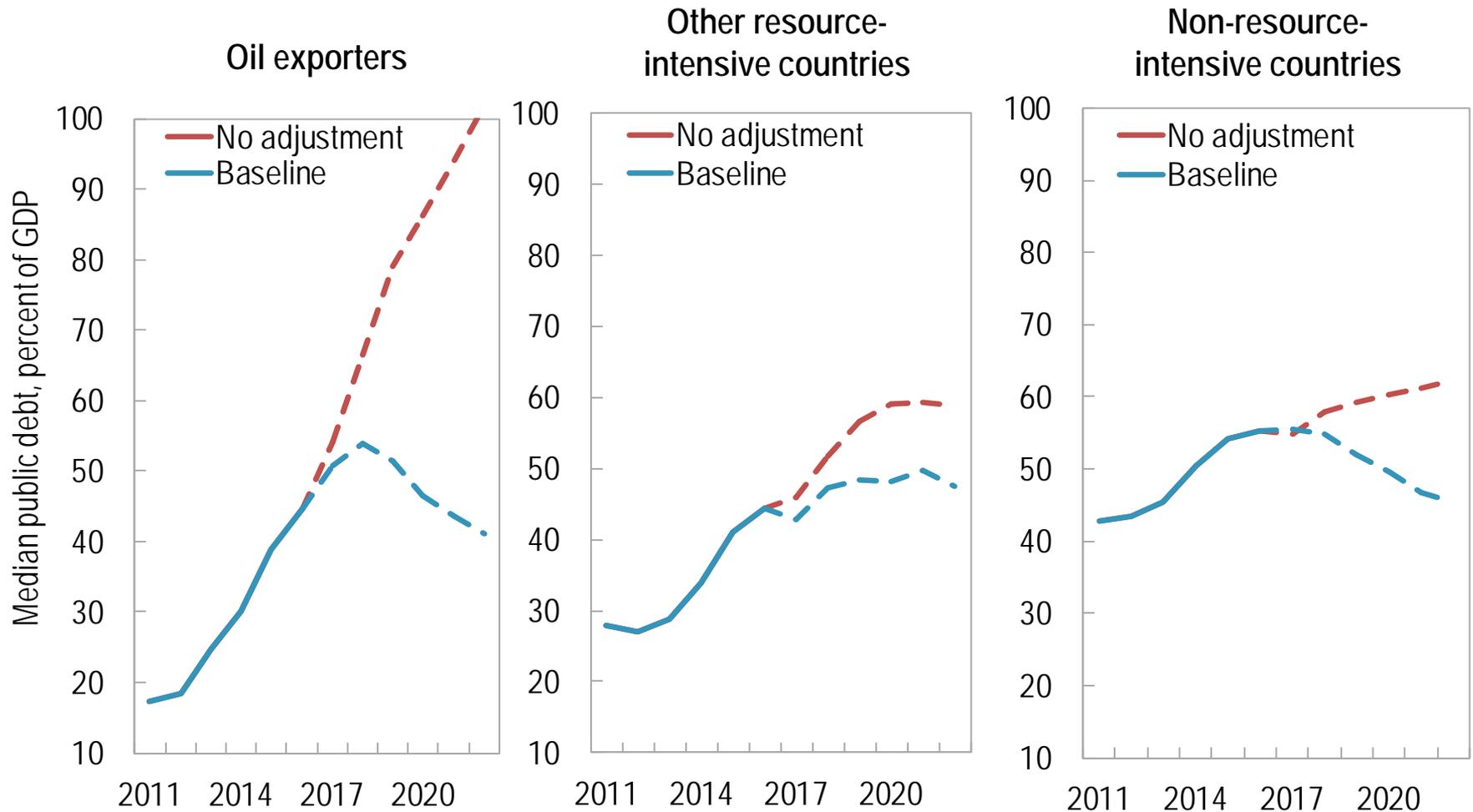
Emphasis on revenue mobilization

Fostering economic diversification

Fiscal consolidation plans need to be implemented

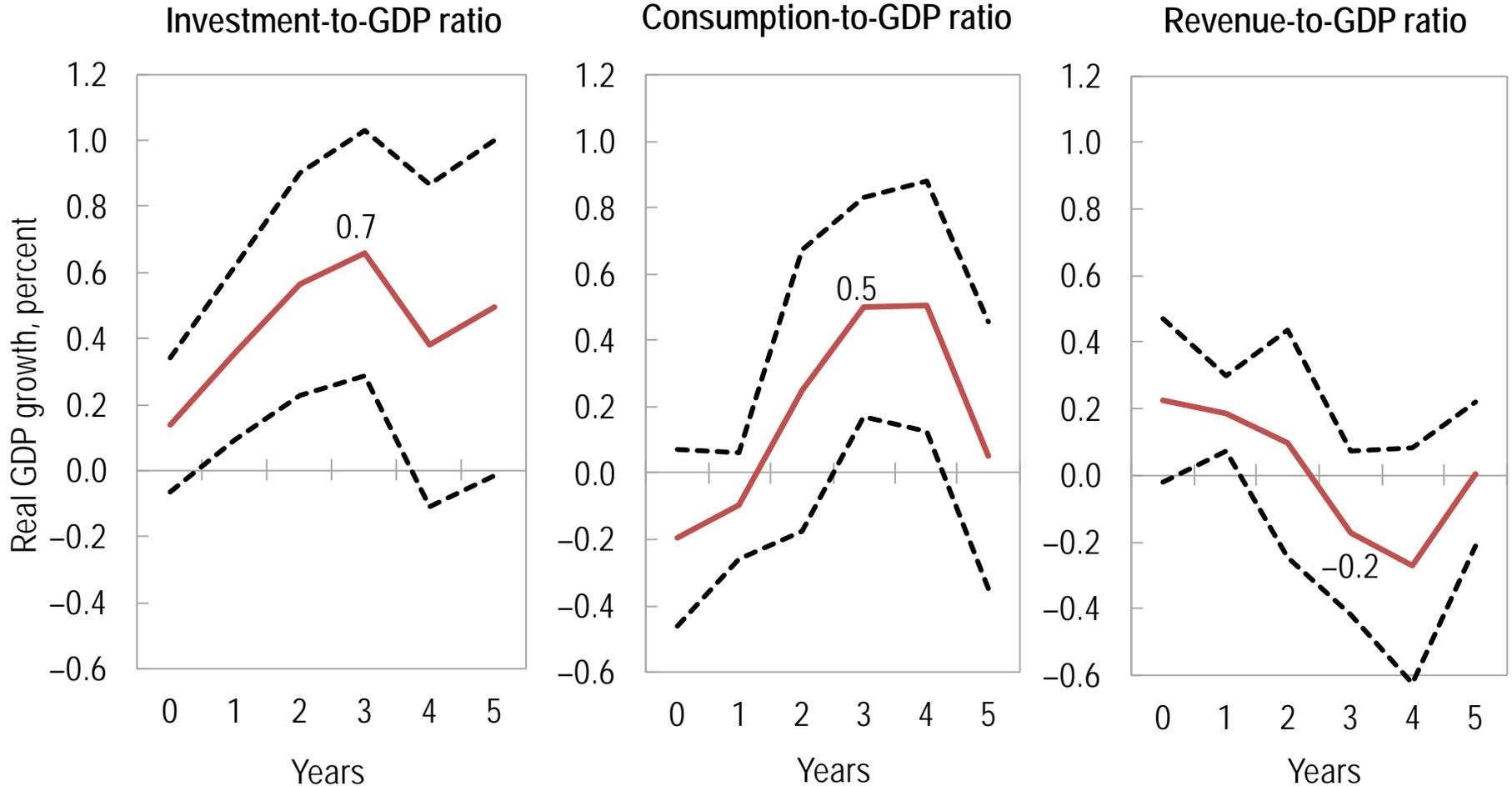


Fiscal consolidation plans need to be implemented



Fiscal multipliers are lower in SSA

Impact on GDP growth of a 1 pp increase in ...

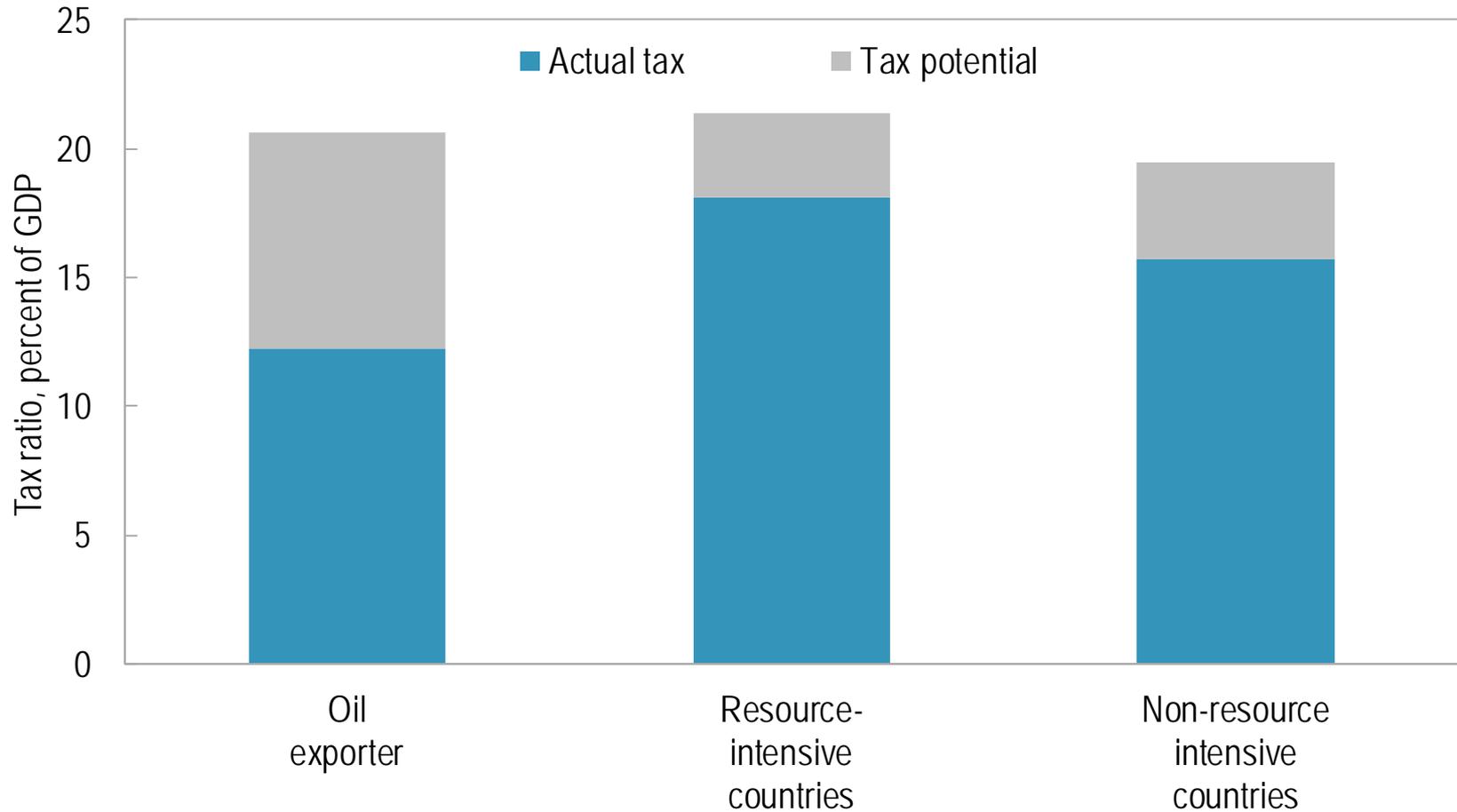


Addressing debt vulnerabilities

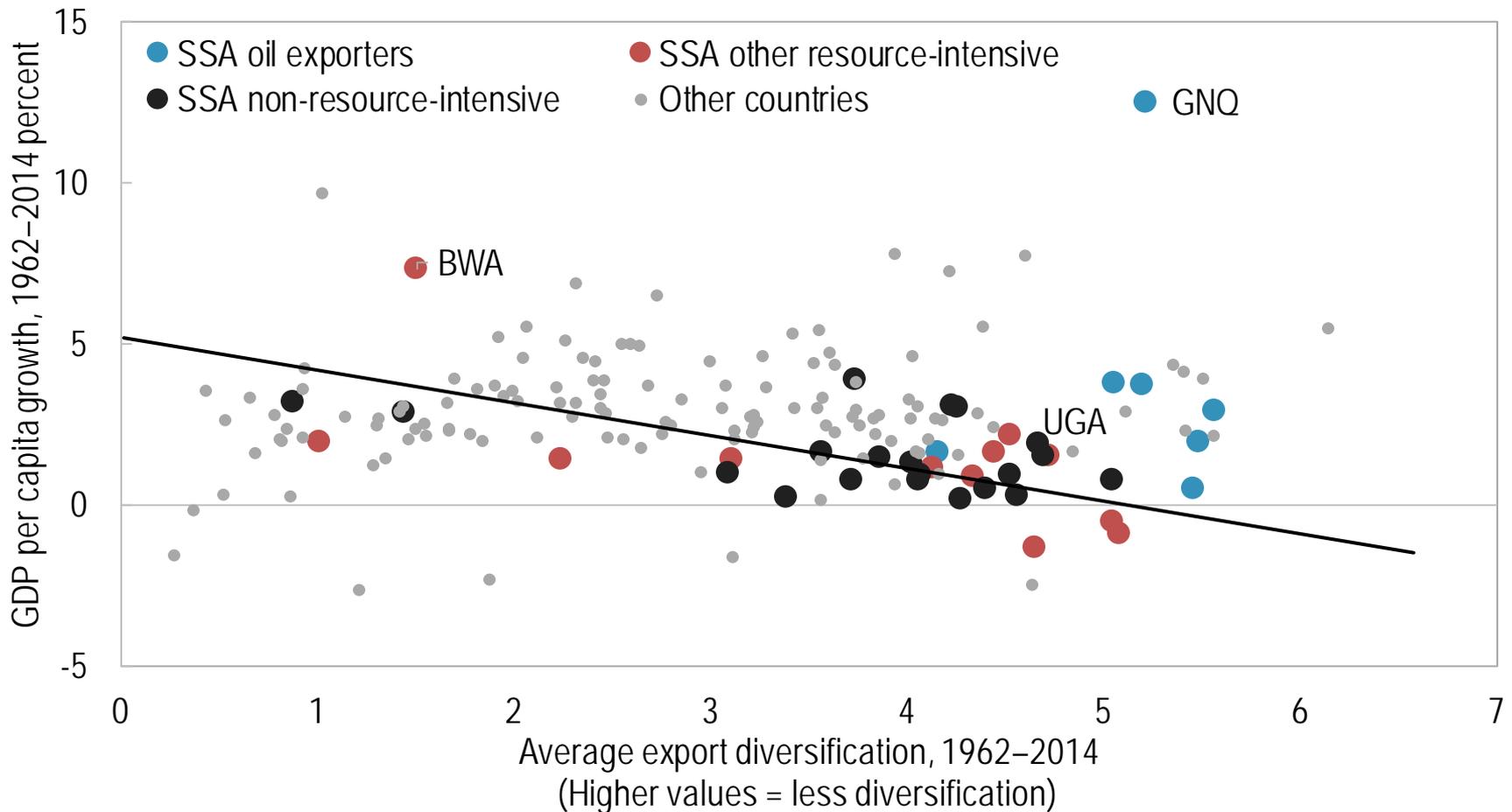
Emphasis on revenue mobilization

Fostering economic diversification

Significant potential for raising revenues



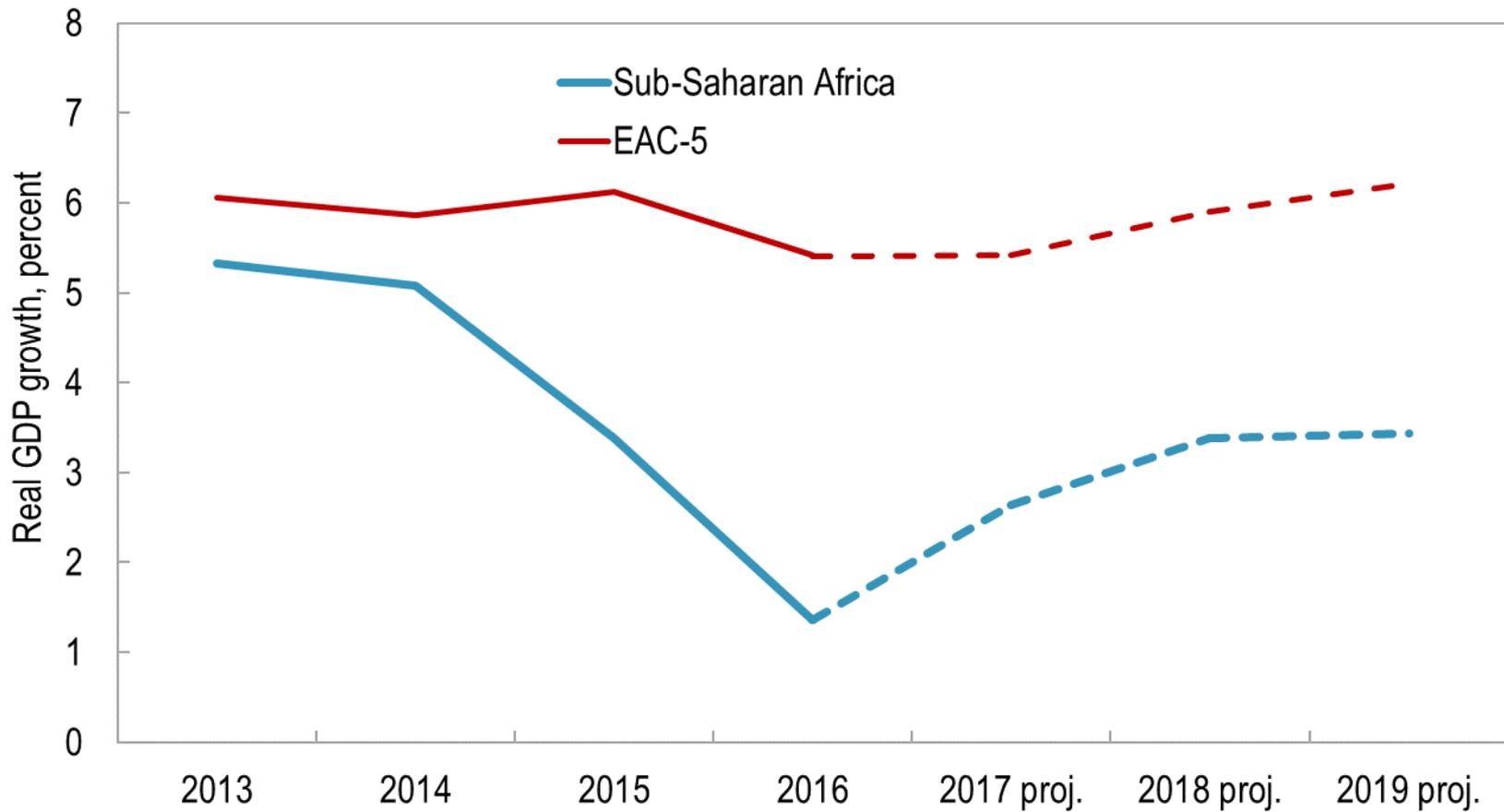
Diversification offers a path to growth



EAC

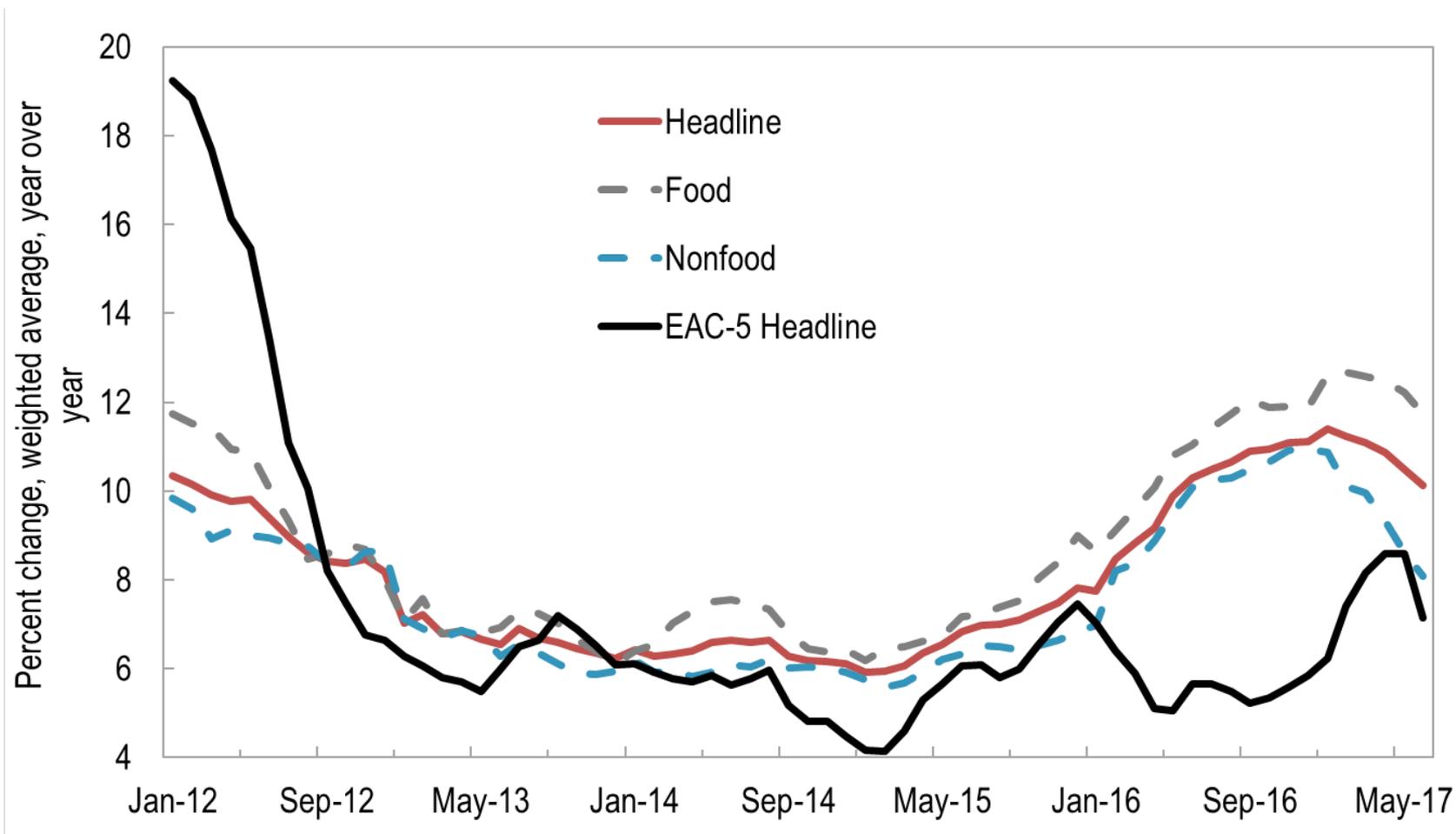
Recent Developments and Outlook

Growth projected to pick up to recent historical levels in the EAC



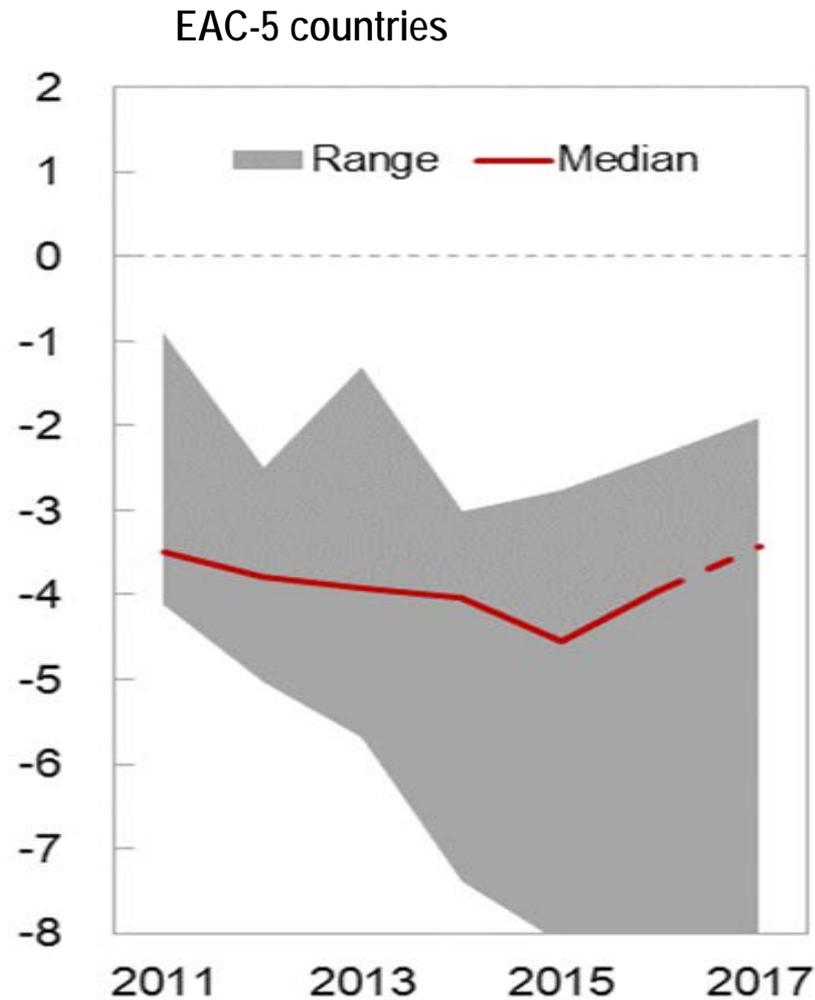
EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda

Inflationary pressures are receding



EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda

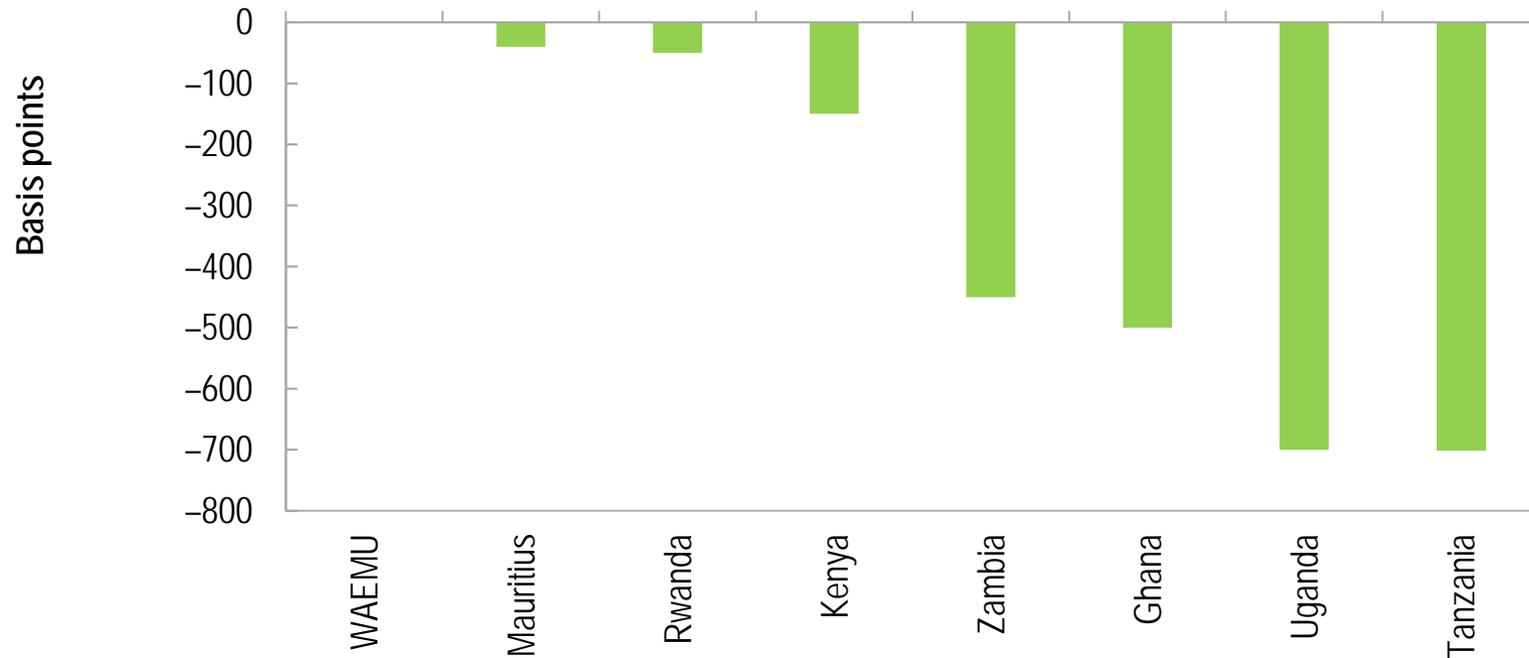
EAC fiscal deficits are diminishing but with large variance



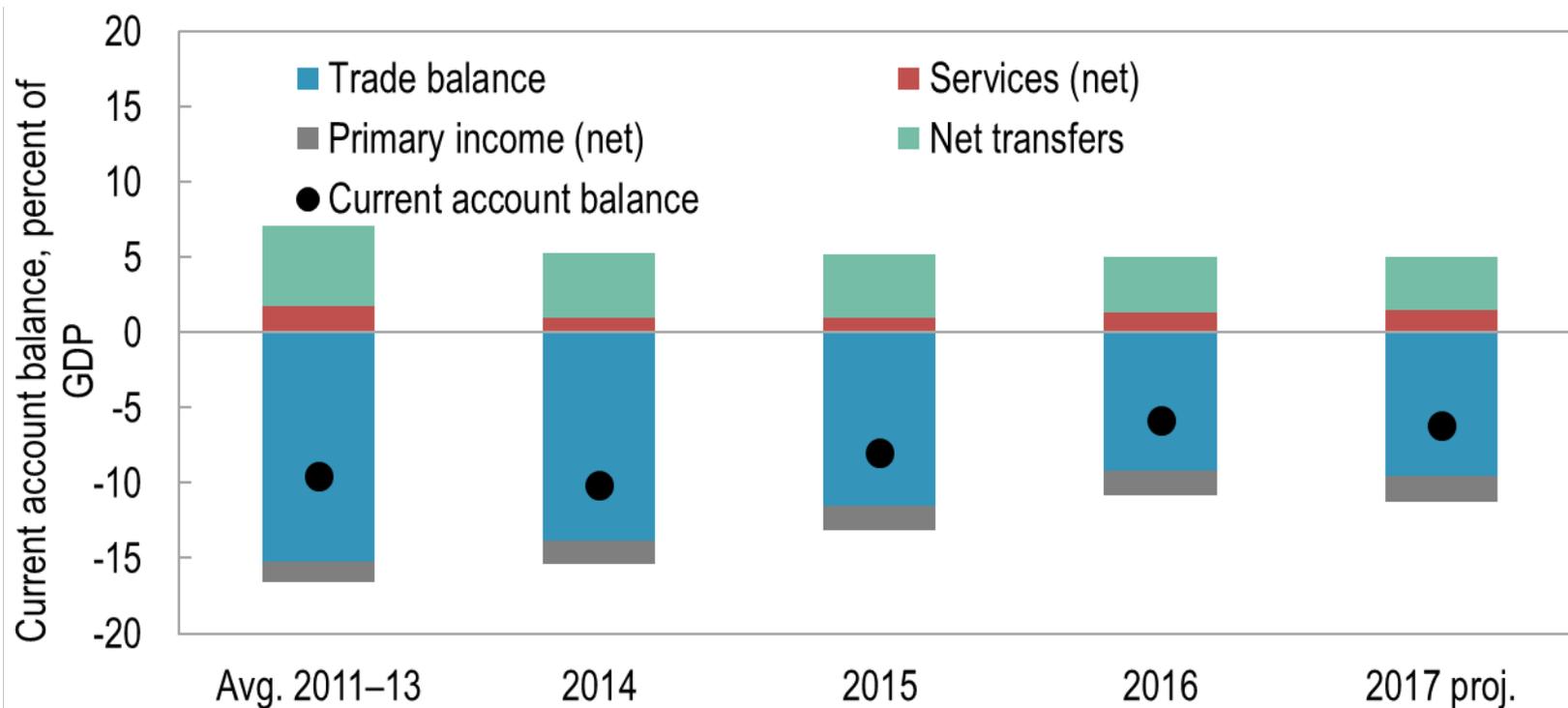
EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda

Monetary easing taking place among EAC countries

Change in Monetary Policy Rate, January 2016–August 2017



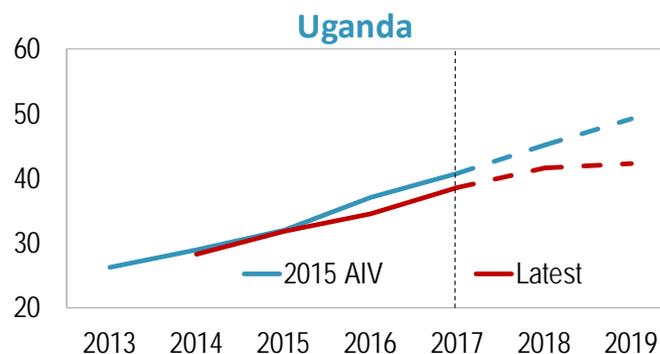
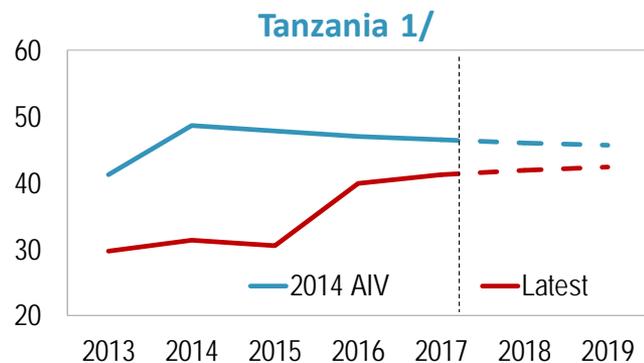
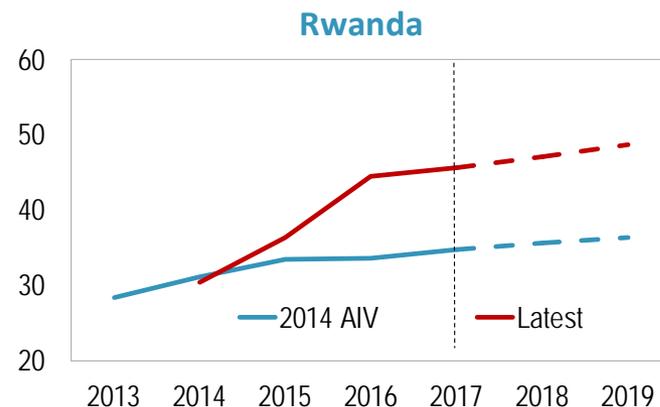
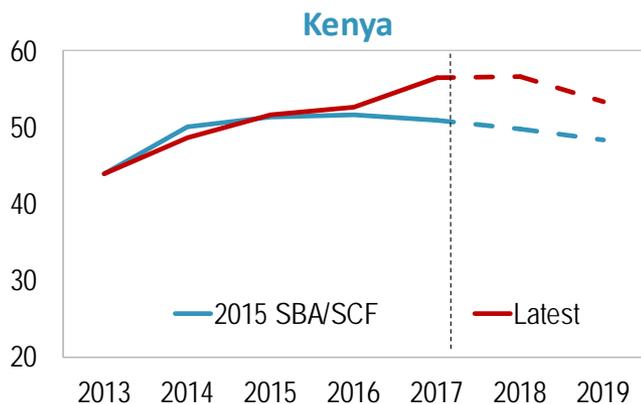
Current account balances are improving



EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda

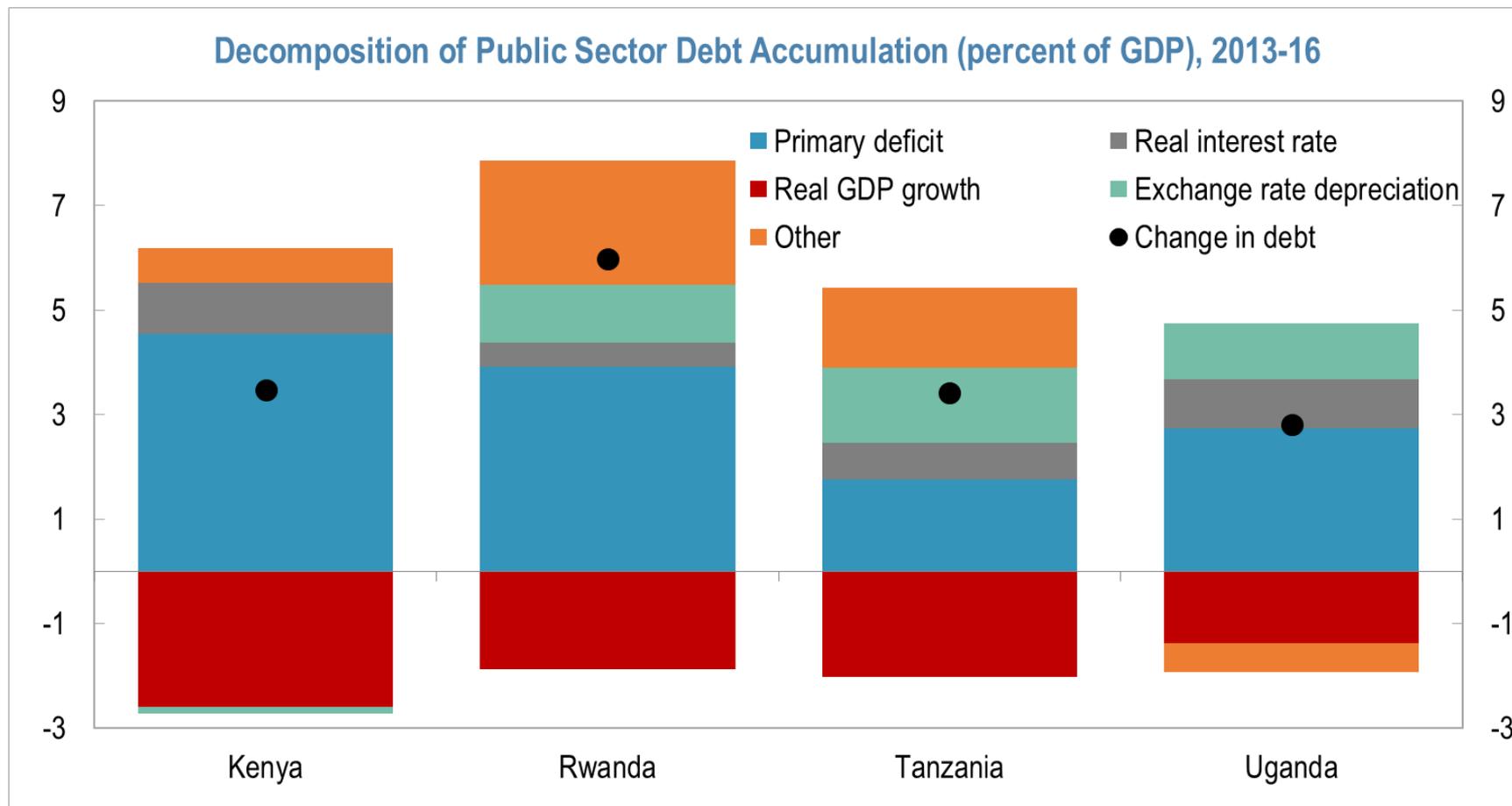
Debt accumulation is higher than projected in some EAC countries

Public and Publicly-Guaranteed Debt (percent of GDP)

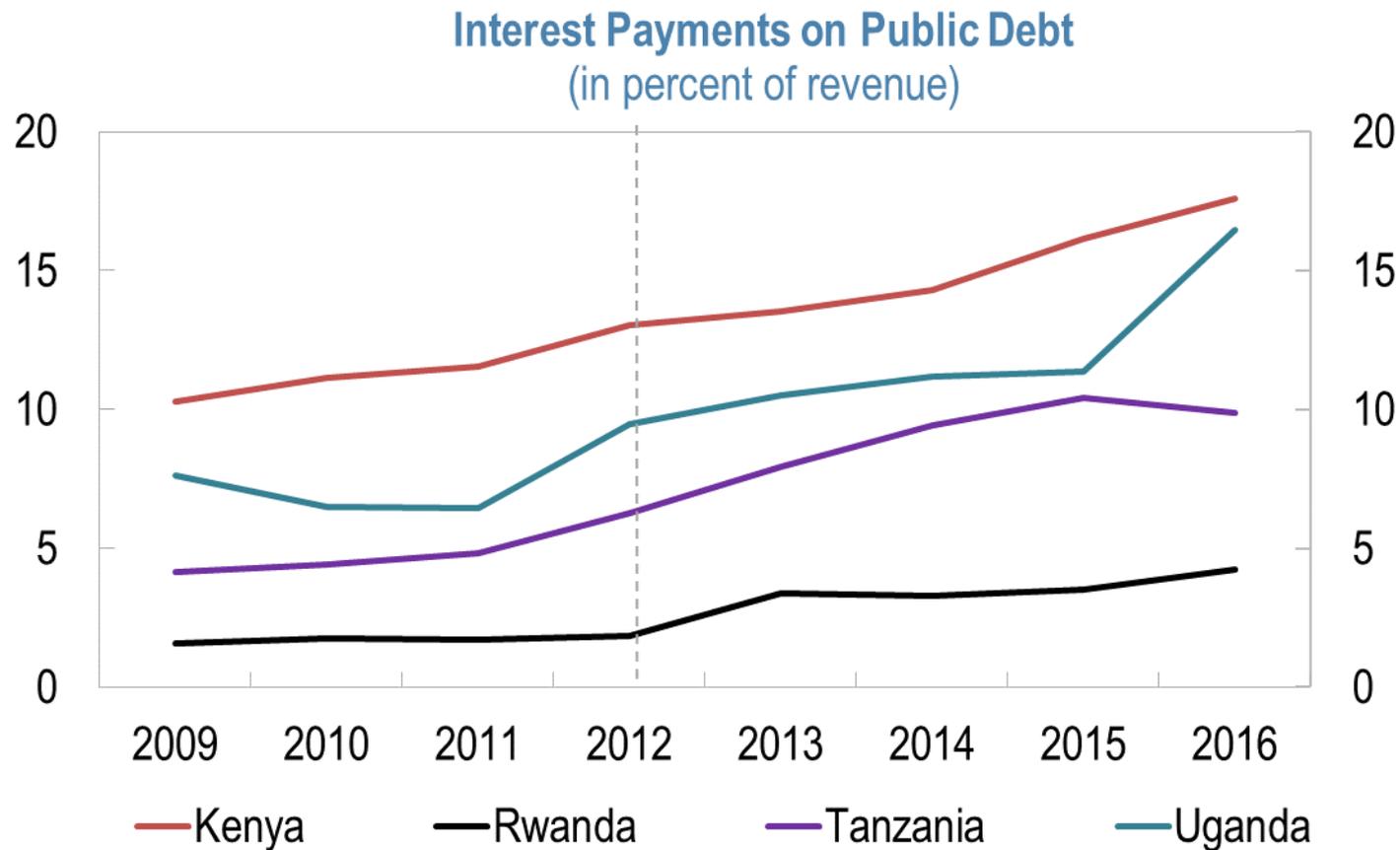


1/ Starting in 2016, data for Tanzania include a broader coverage of outstanding government liabilities and other contingent liabilities.

With higher primary deficits playing a major role

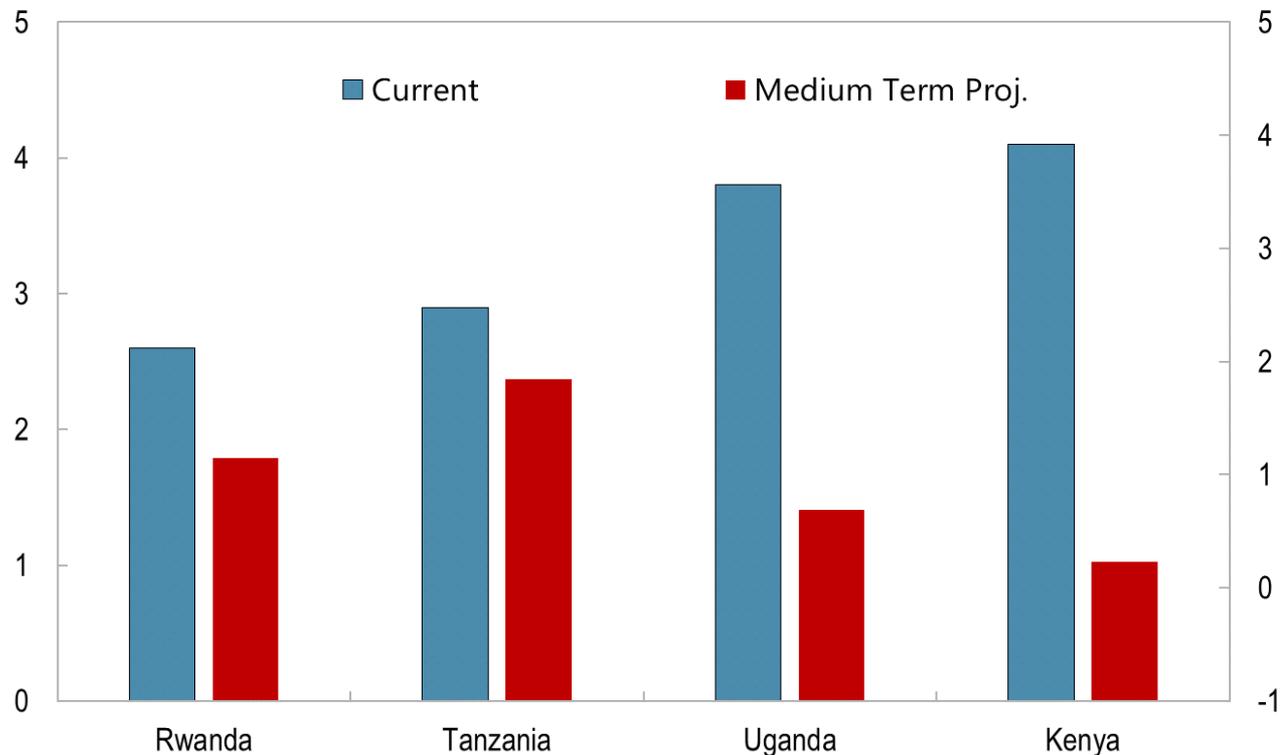


Debt service is taking up an increasing share of revenue



EAC governments need to deliver on the planned fiscal consolidation

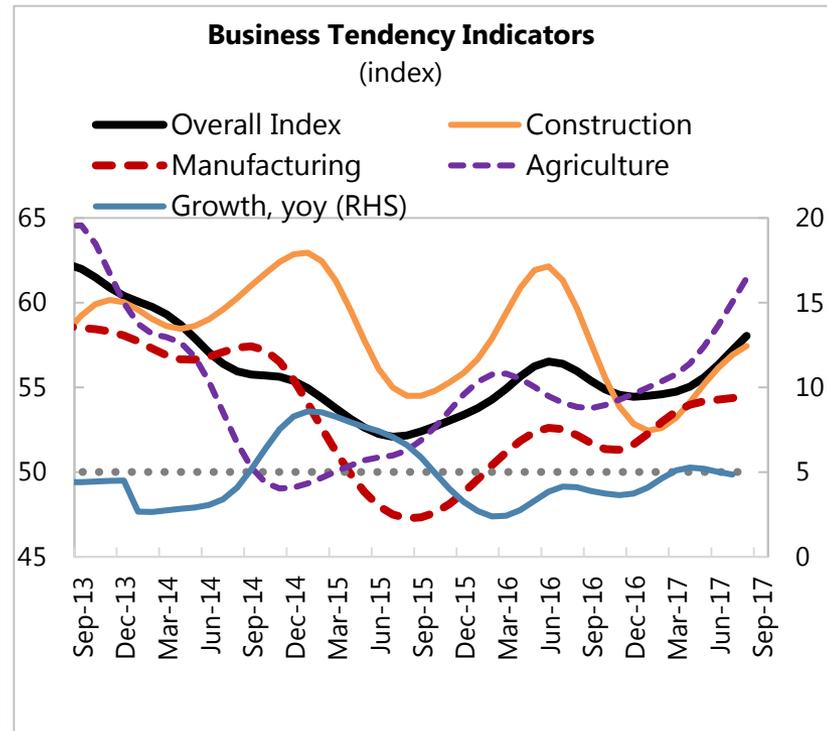
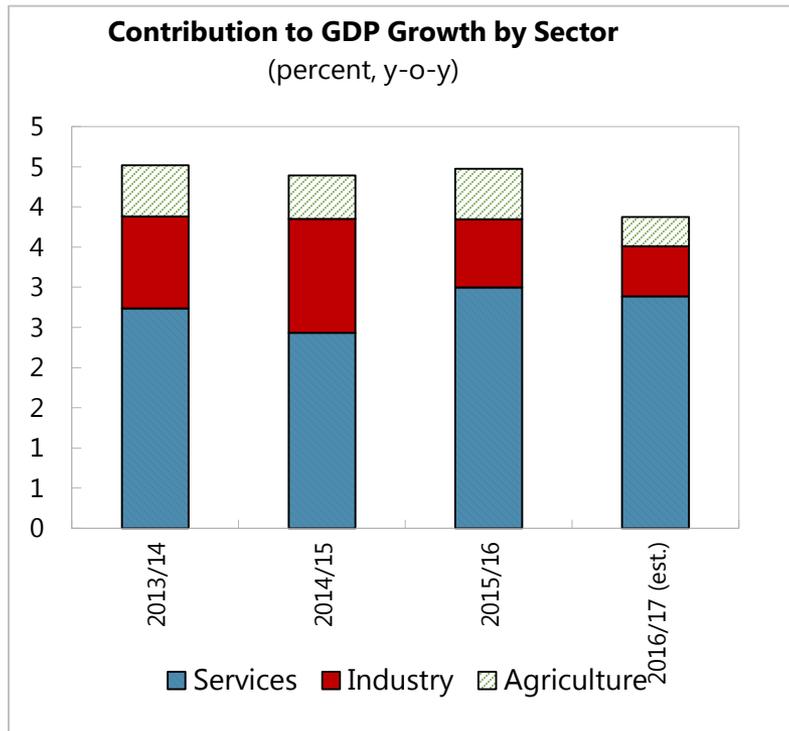
Primary Fiscal Deficit
(Percent of GDP)



UGANDA

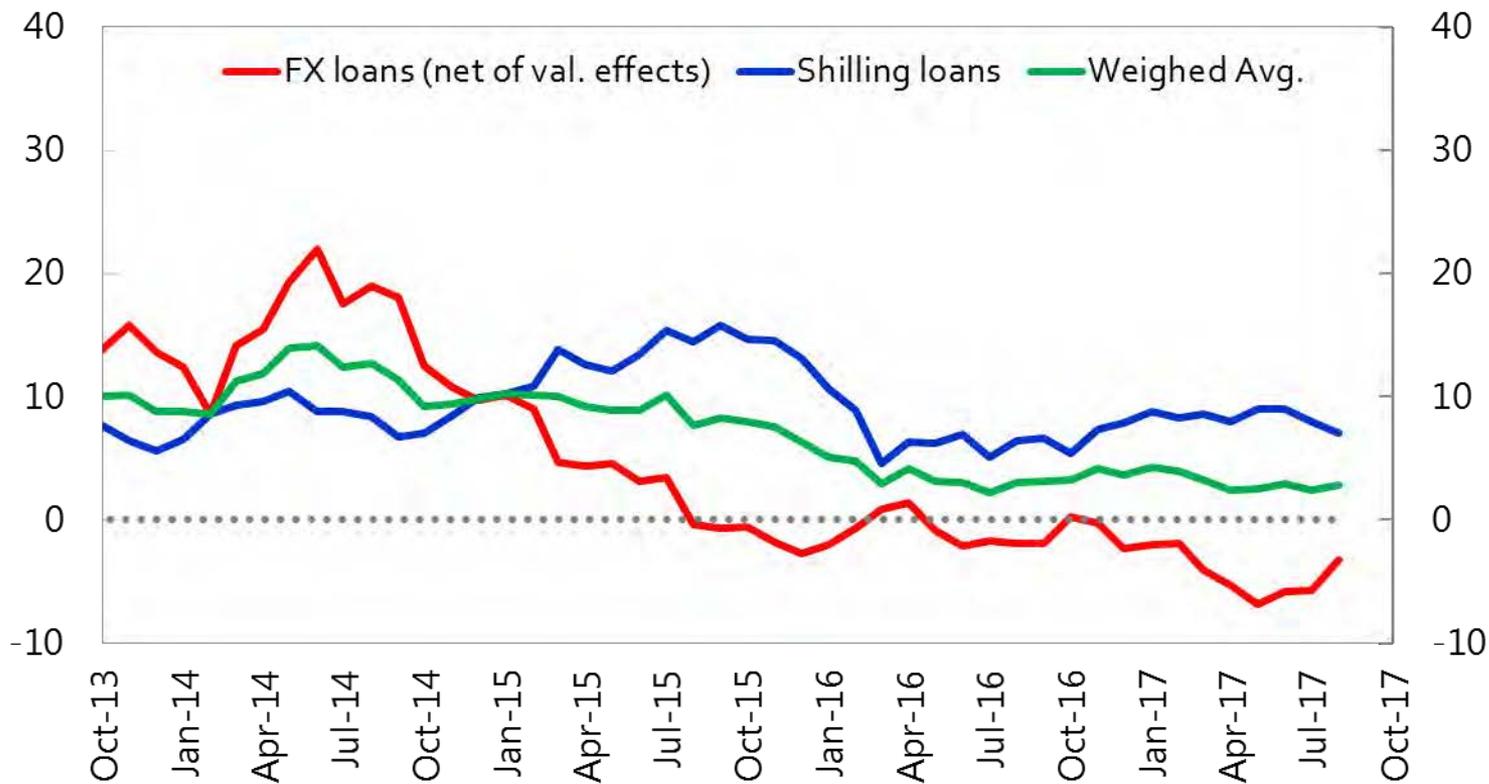
Recent Developments and Outlook

Growth has slowed... but a pickup is anticipated



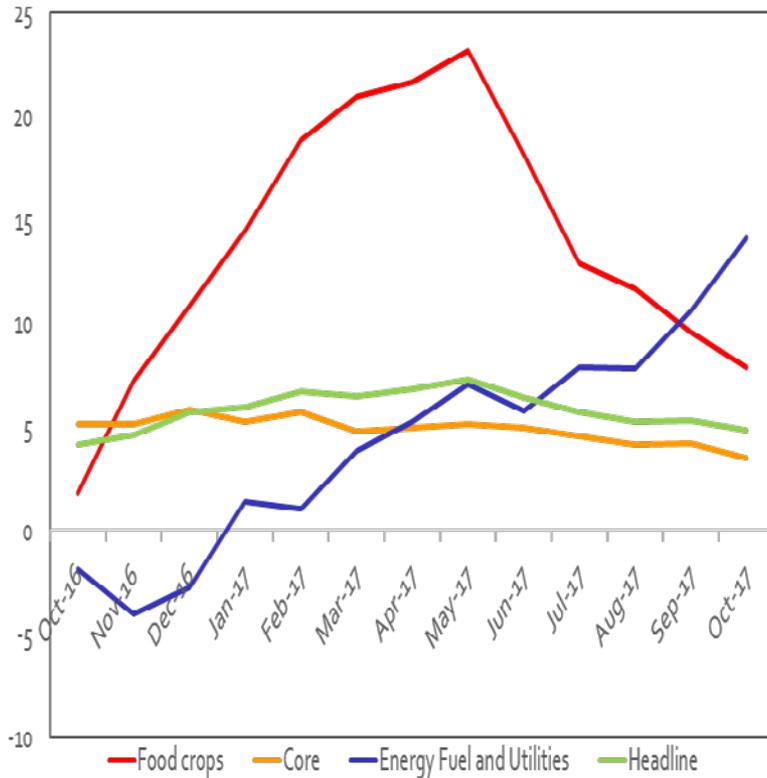
Private Sector Credit remains muted

Evolution of Private Sector Lending
(percent, y-o-y growth)

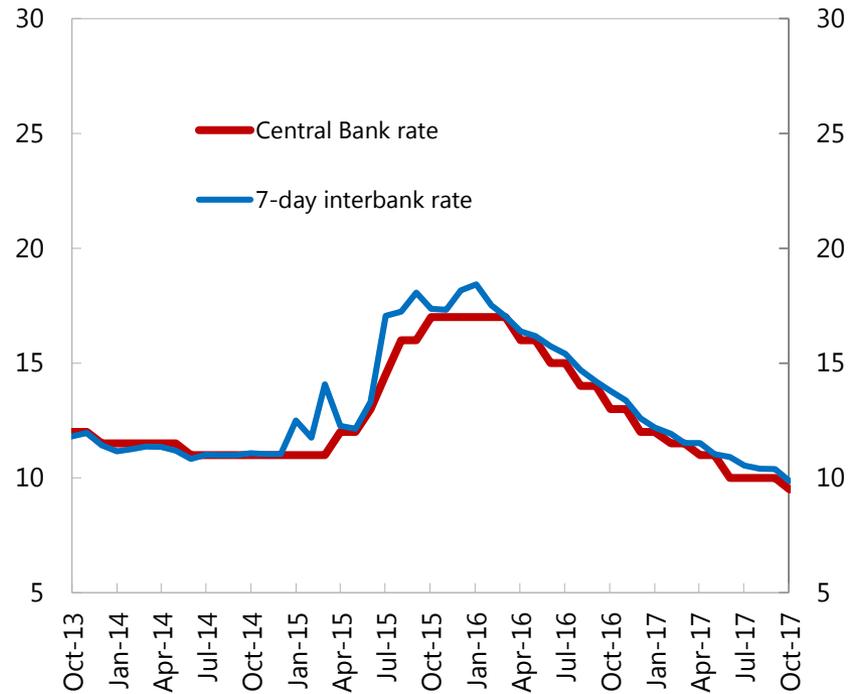


Inflation remains contained

Inflation Rates (Annual percent change)

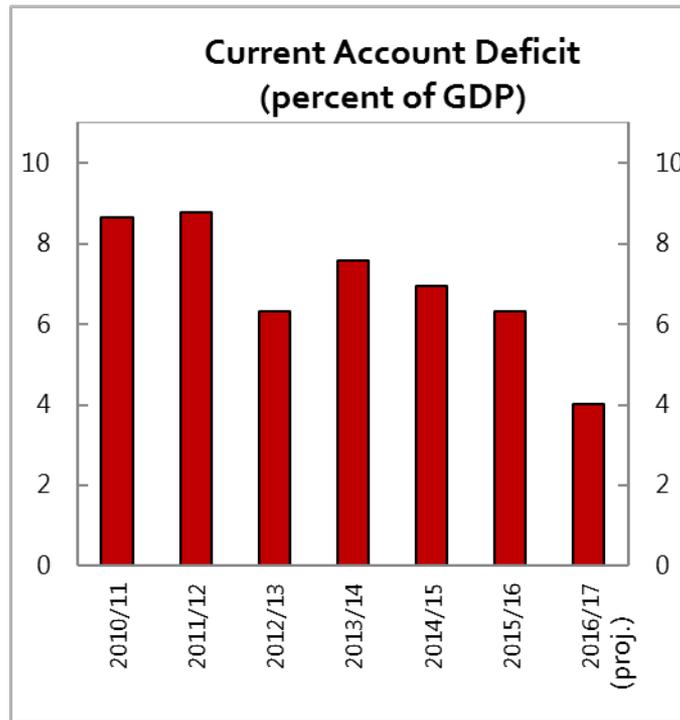


Central Bank and Interbank Rates (percent)

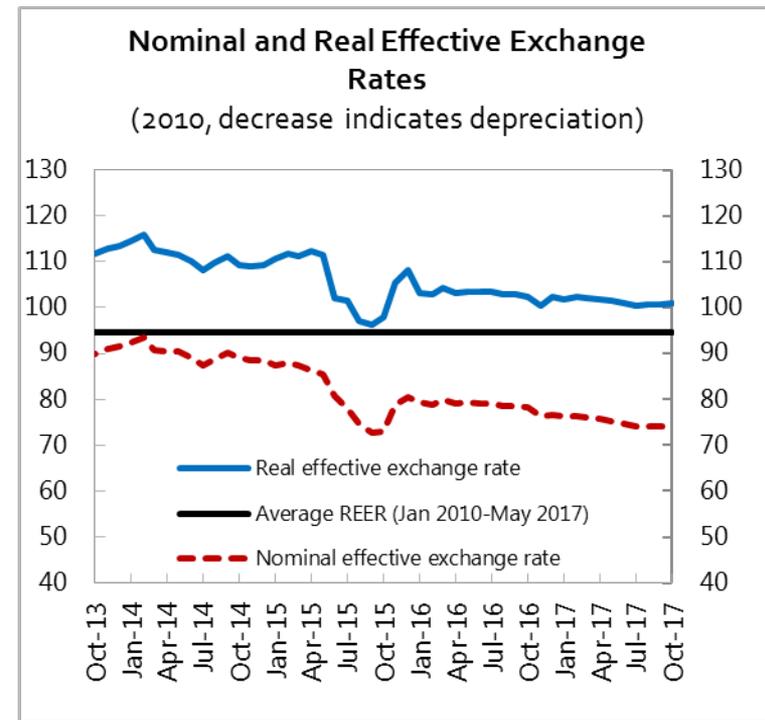


External Sector conditions

Current Account Deficit is improving



Stable Exchange Rate conditions

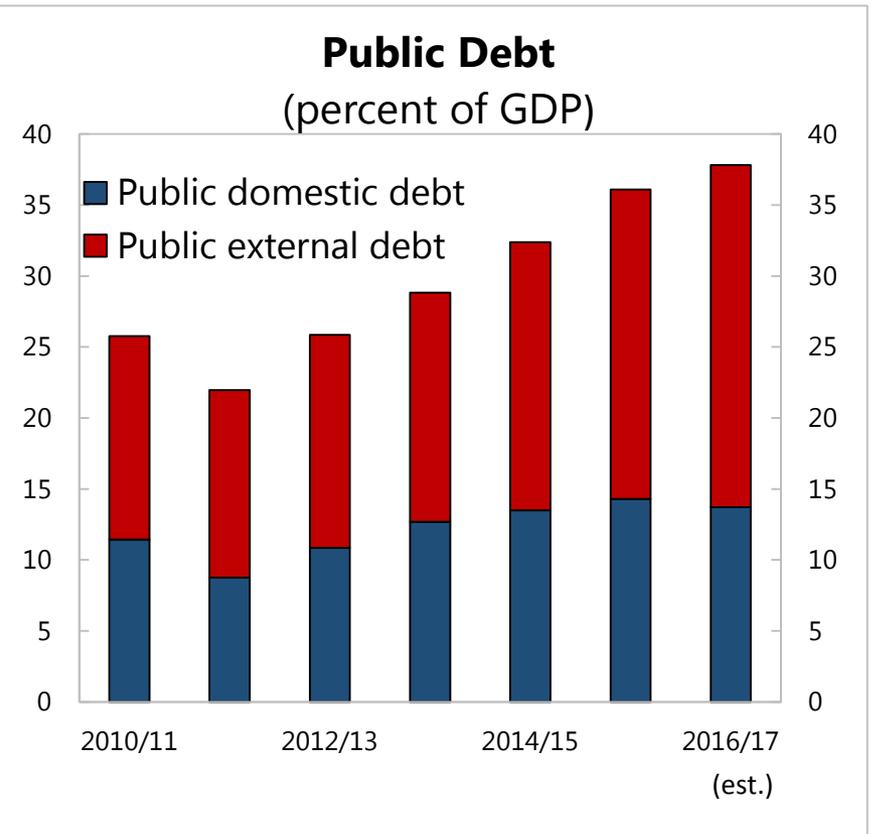
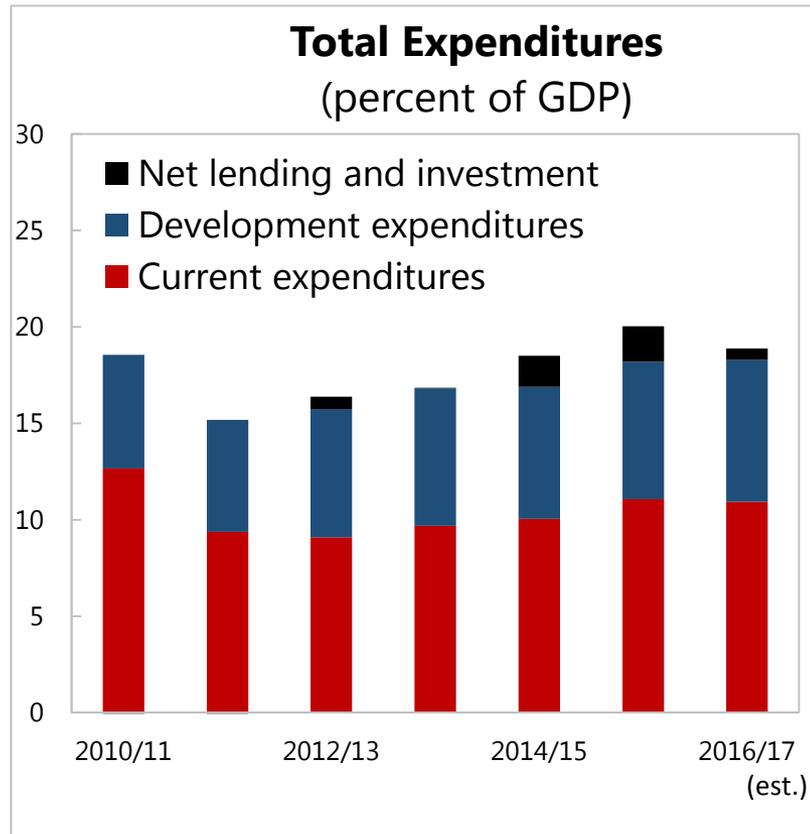


Source: Bank of Uganda

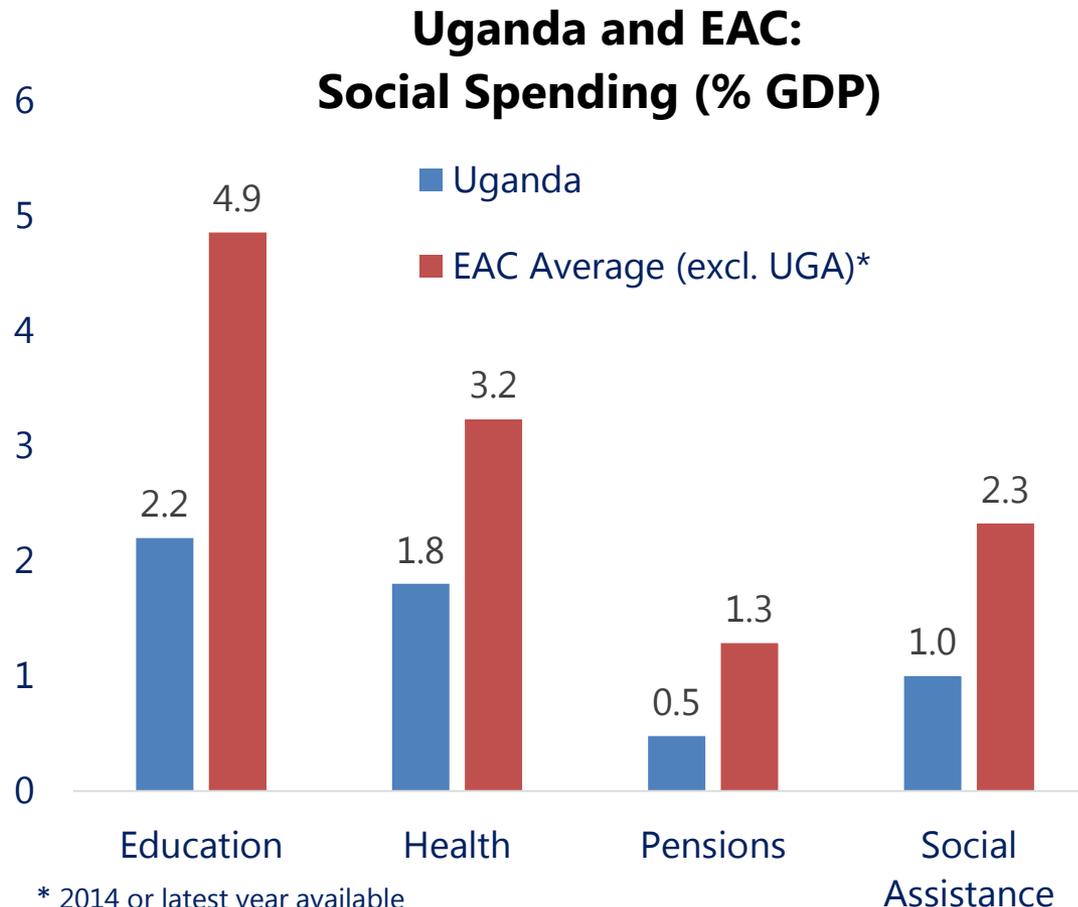
Fiscal policy remains focused on infrastructure

Continued scaling up of infrastructure spending

Rising External Debt



Fiscal policy remains focused on infrastructure

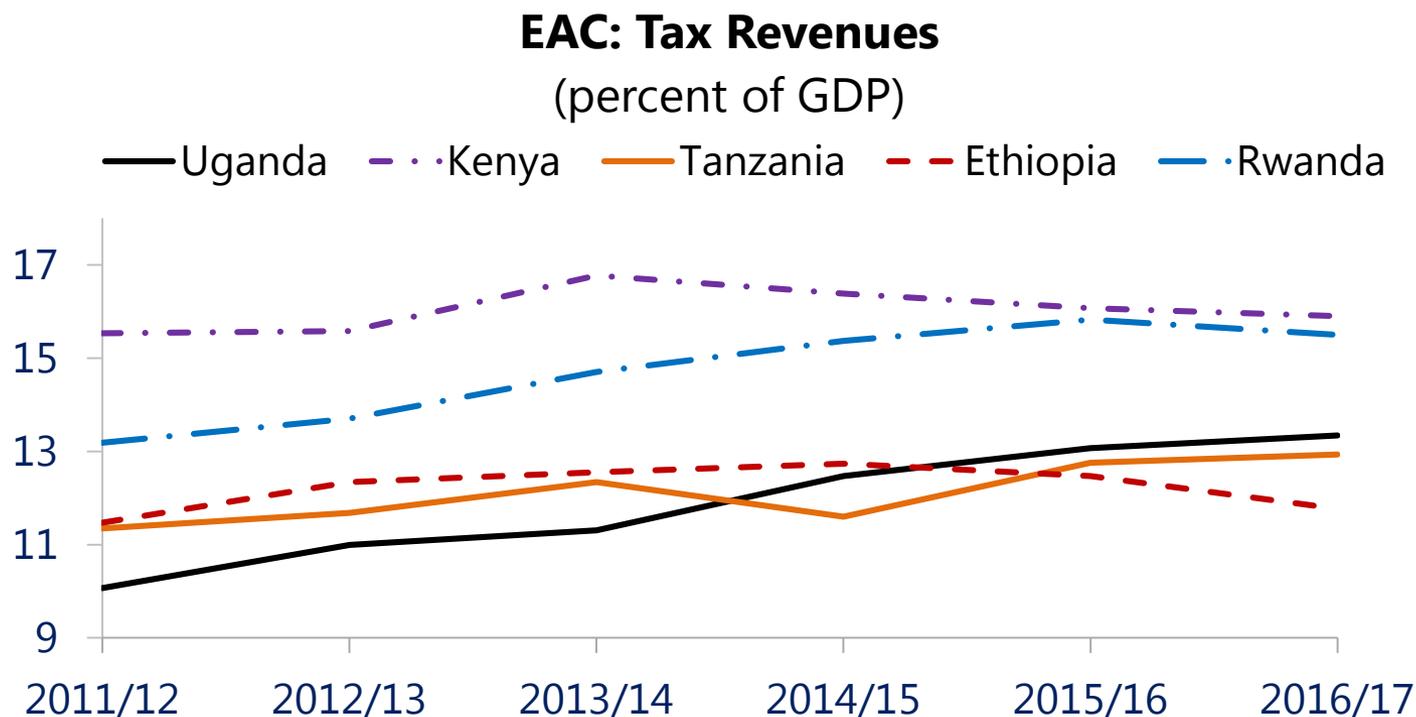


* 2014 or latest year available

Sources: IMF and World Bank Calculations

1. Government expenditure on old age, survivors and disability pensions.

Domestic Revenue Mobilization remains lower than that of regional peers



*Refer to fiscal data or calculated equivalents.

Sources: IMF staff estimates.

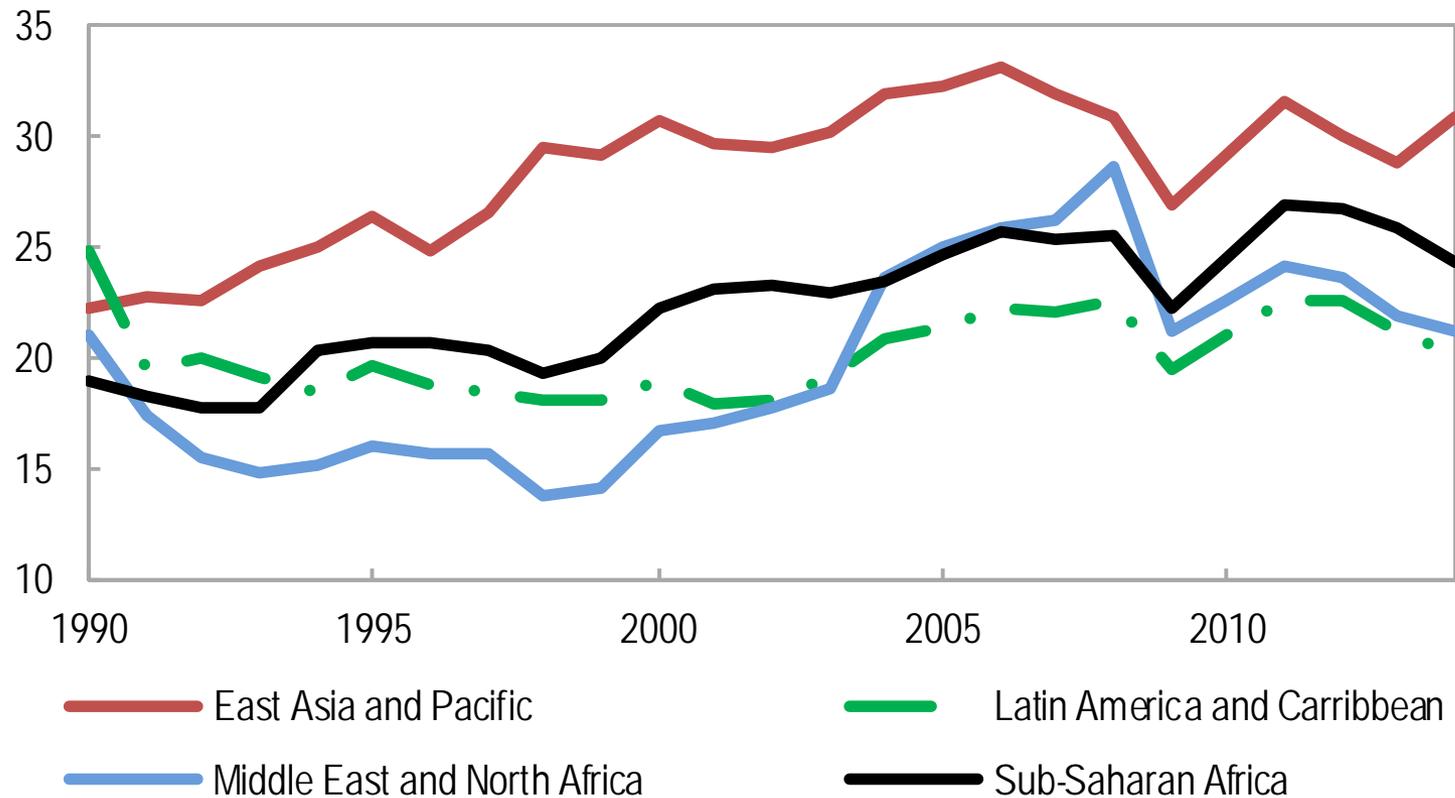
*EAC-3: Averages for Kenya, Rwanda, and Tanzania.

1. Make growth inclusive: improve skill formation
2. Domestic revenue mobilization reforms
3. Reforms to improve spending efficiency
(strengthening public investment management)
4. Continue enhancing financial sector inclusiveness
5. Improve business environment

Diversification

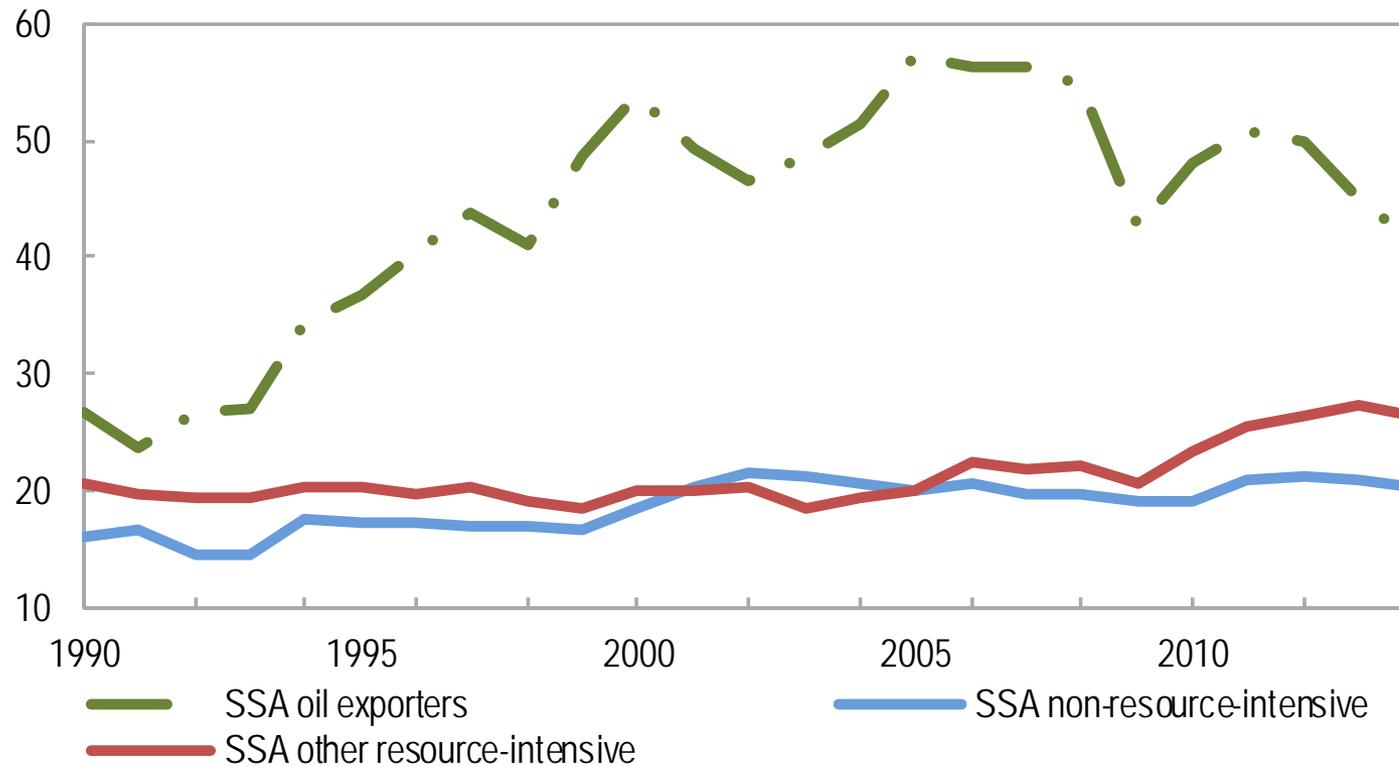
Goods exports rising and relatively high.

Goods exports 1990–2014 (Percent of GDP)

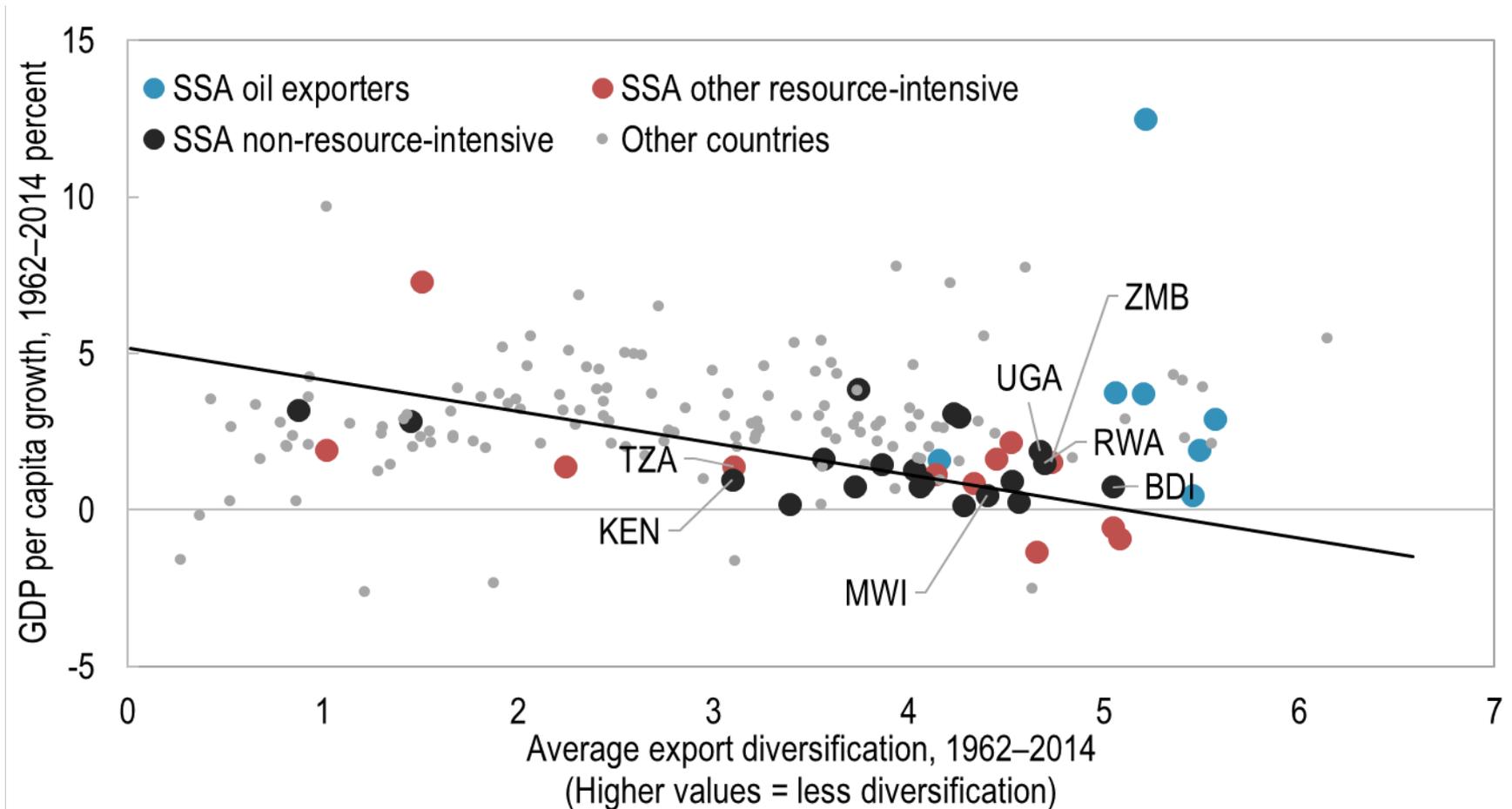


Diverse picture within sub-Saharan Africa.

Goods exports 1990–2014 (Percent of GDP)



Diversification offers a path to growth

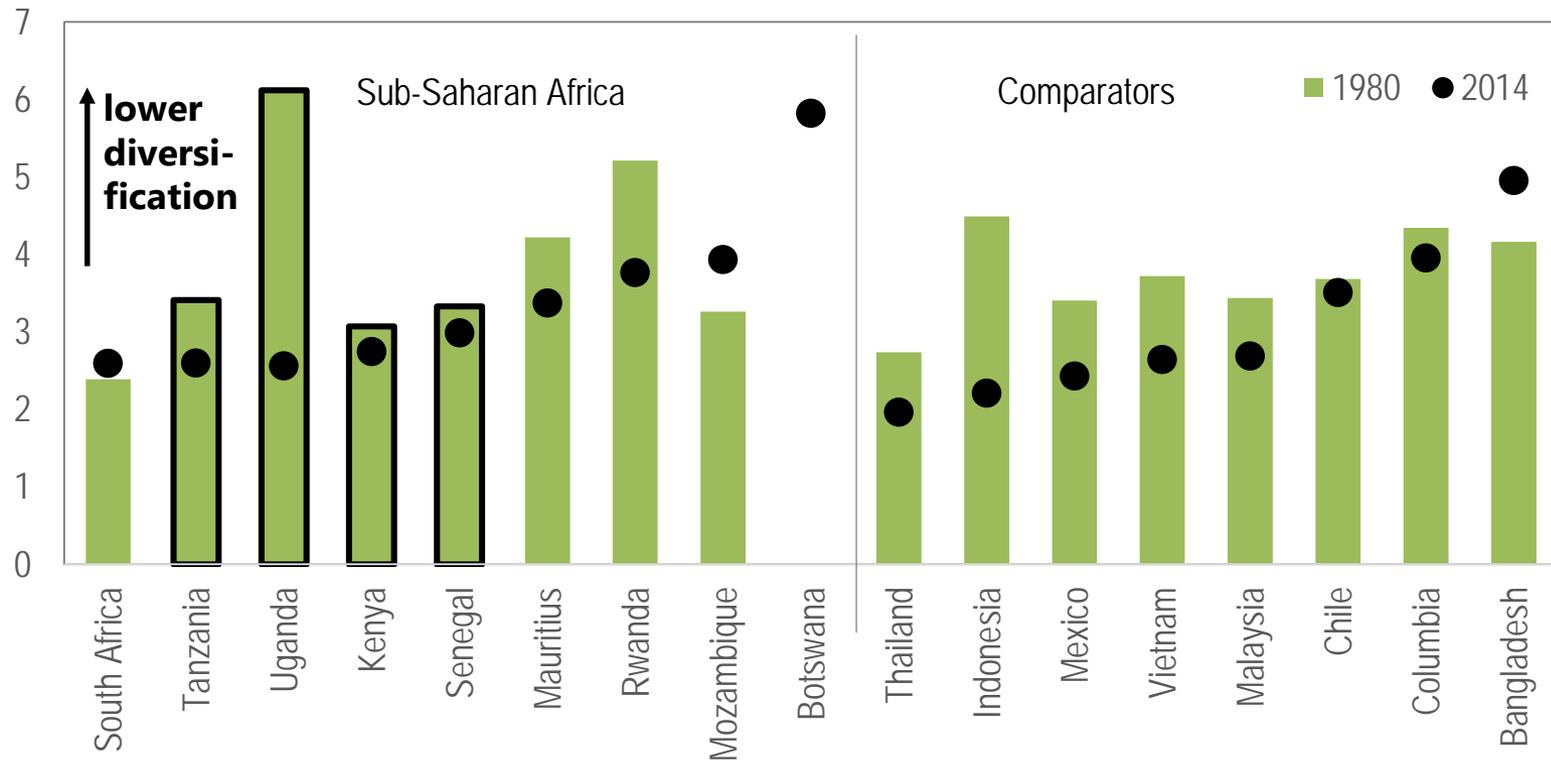


EAC-5: Uganda, Kenya, Rwanda, Tanzania and Burundi

Some countries are as diverse as peers.

Export Product Diversification by Country: 1980 and 2014

(Theil index; lower values=higher diversification)



Uganda 1995

Export Complexity



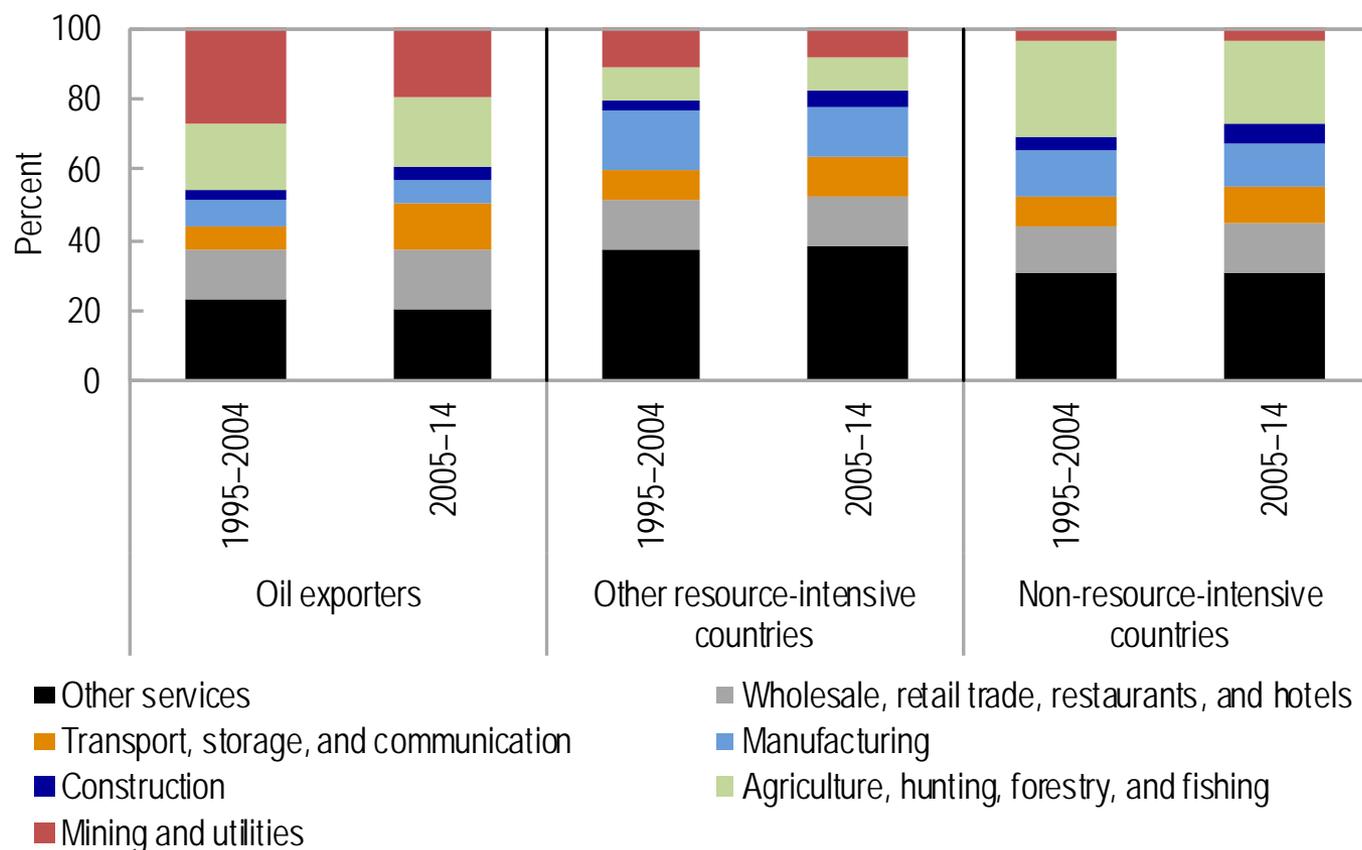
Uganda 2015

Export Complexity



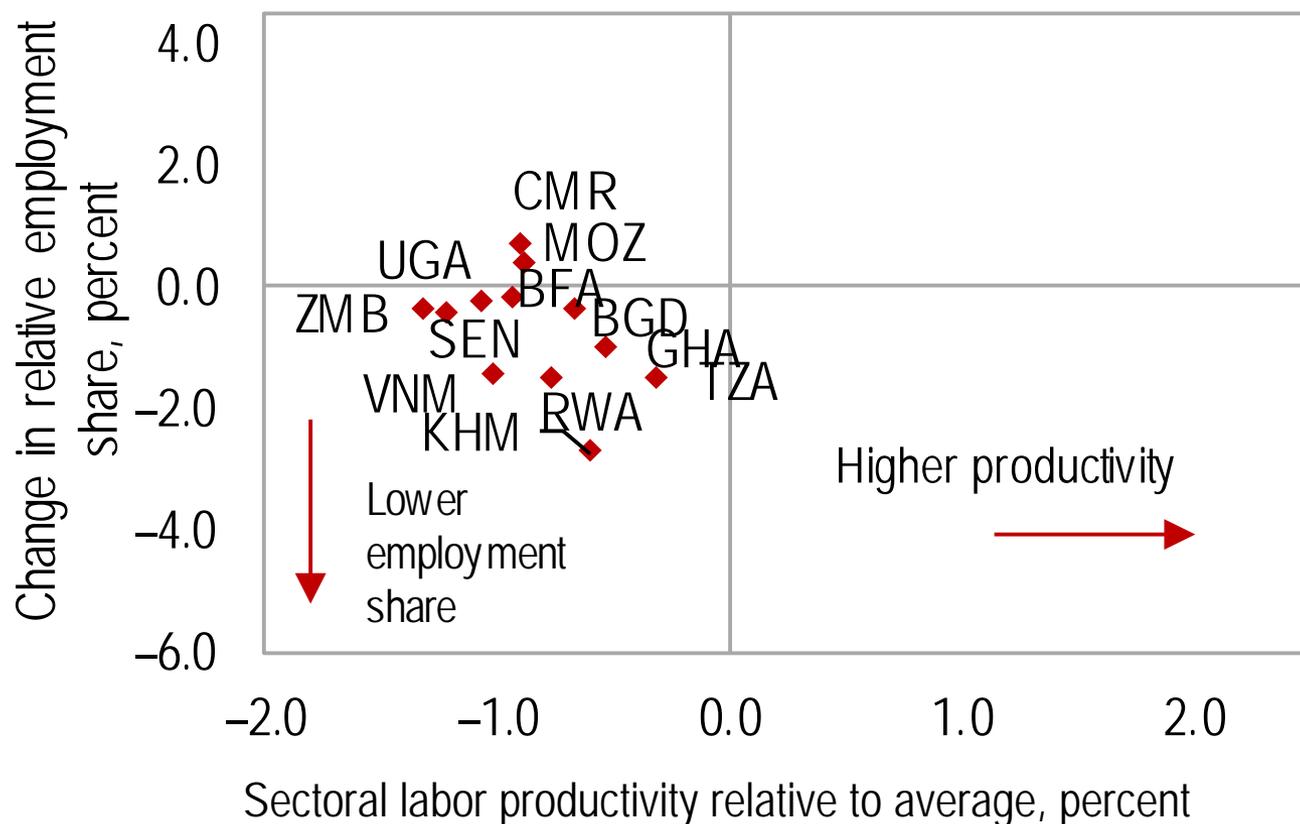
Broadly unchanged output structure.

Sub-Saharan Africa: Real Sectoral Shares GDP, 1995–2014



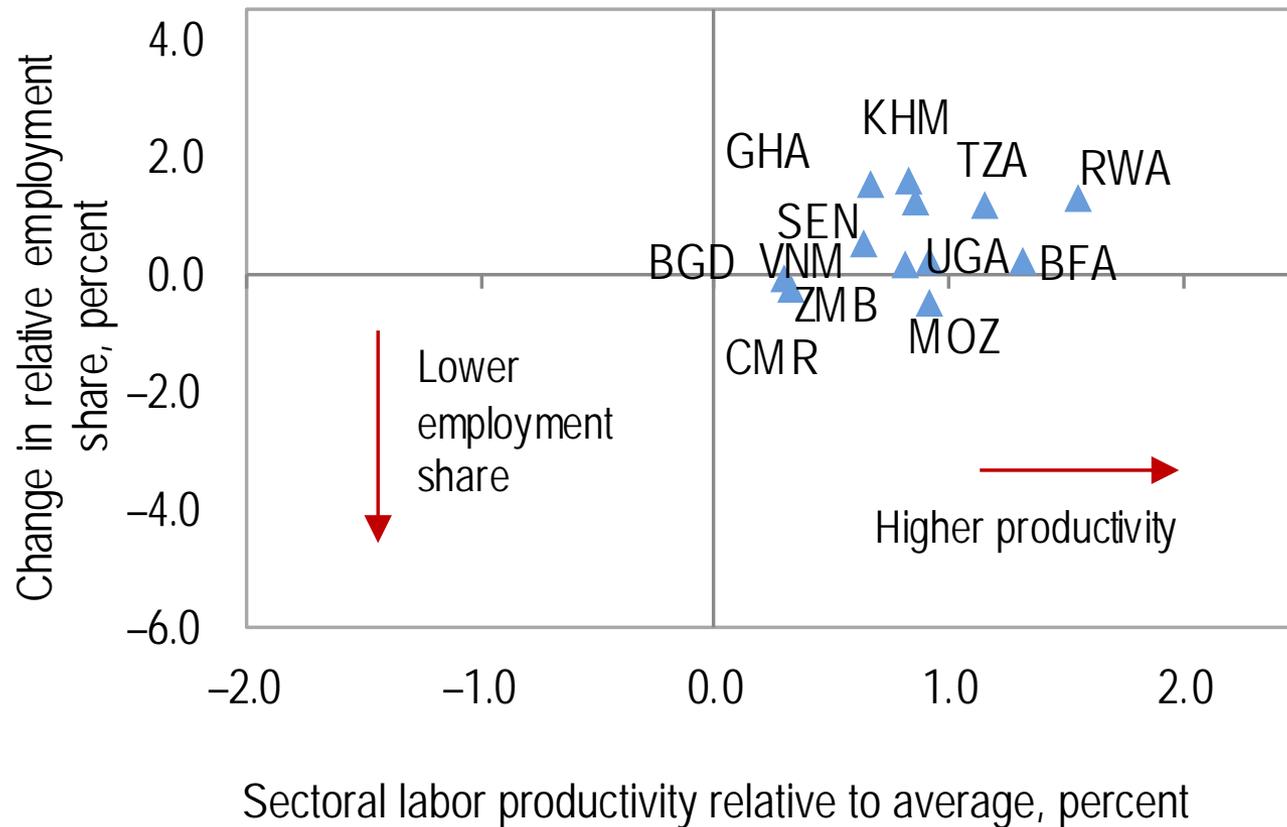
Labor has shifted out of agriculture.

Agriculture

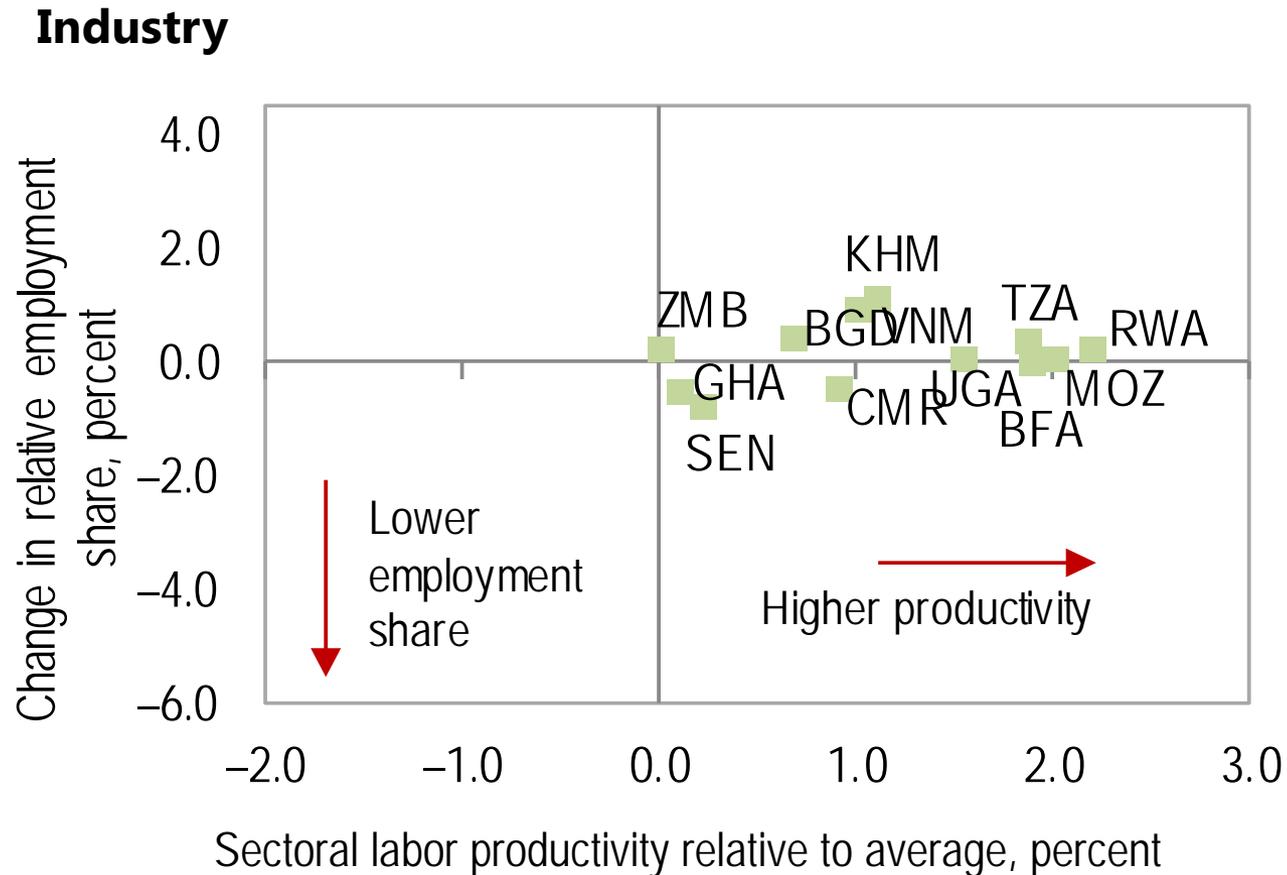


Employment in services has picked up.

Services



No uniform picture for manufacturing.



Getting the policy mix right and playing to your strengths

Botswana: Expanding along the value chain

- Built on an existing position in the diamond industry
- Helped to create positive spillovers to supporting sectors
- Strong record of good governance
- Prudent economic management

Uganda: Moving into manufacturing

- Expanded from agro-commodities to agro-processing
- Industrial clusters supported exports of light manufacturing
- Sustained macroeconomic stability
- Expanding regional trade supported export growth

Thank you!

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Regional Economic Outlook
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