



Uganda Budget 2011/12: Macroeconomic Context

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PwC Budget Breakfast
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Outline: Google Earth™ Approach

1. World Economic Outlook
2. Outlook for Sub-Saharan Africa
3. East African Community
4. Uganda's Macro Outlook
5. Budget 2011/12 in perspective

See www.imf.org/weo and www.imf.org/kampala



World: We project global growth of 4 ½ percent

Prospects for World GDP Growth

(percent change)

90% Confidence interval

50% Confidence interval

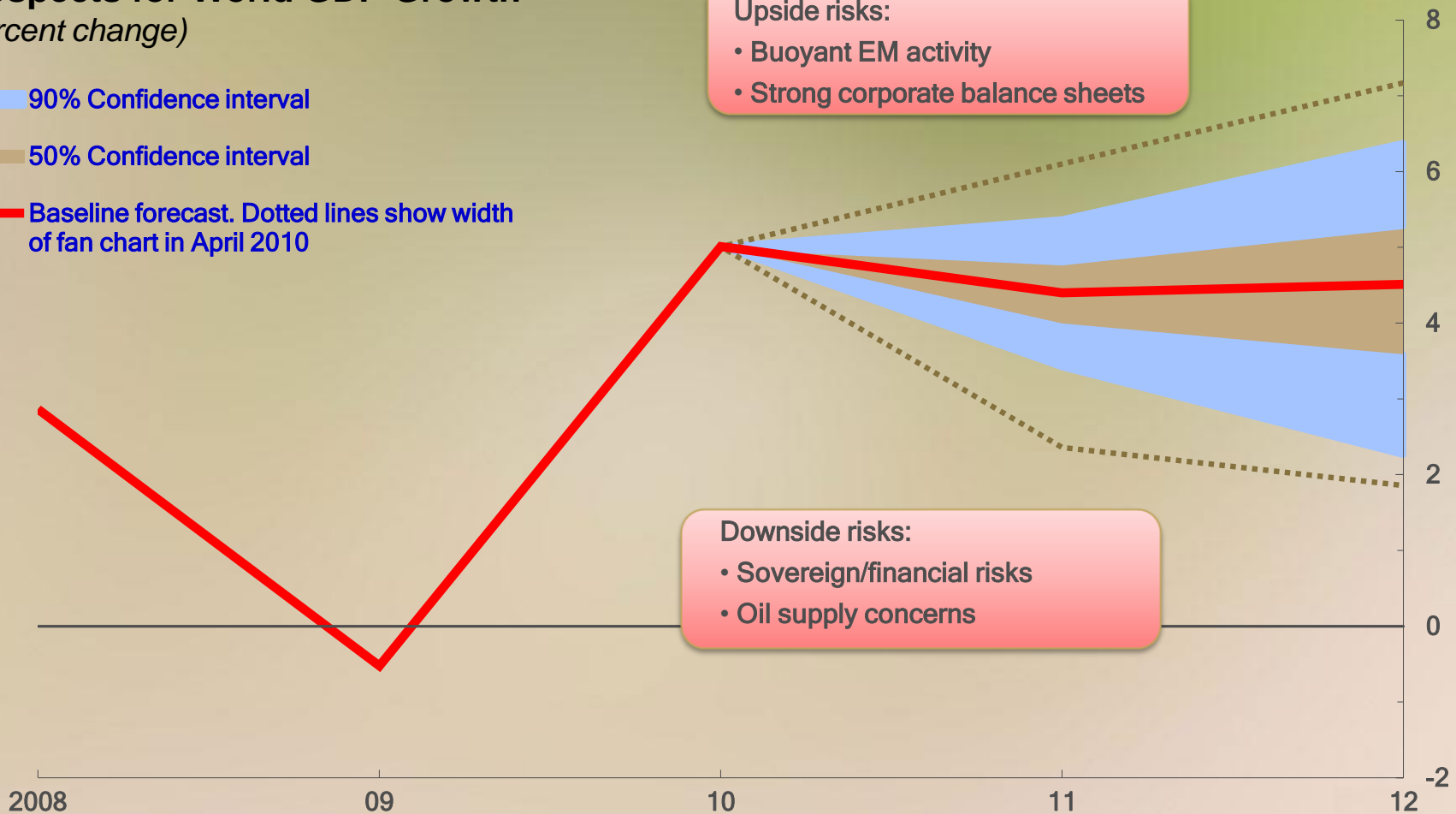
Baseline forecast. Dotted lines show width of fan chart in April 2010

Upside risks:

- Buoyant EM activity
- Strong corporate balance sheets

Downside risks:

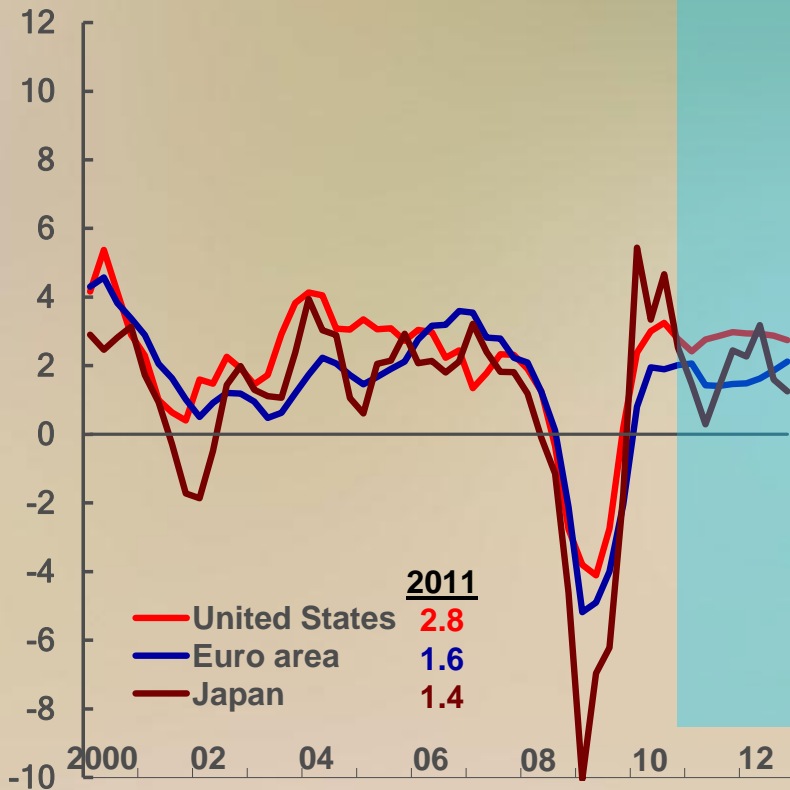
- Sovereign/financial risks
- Oil supply concerns



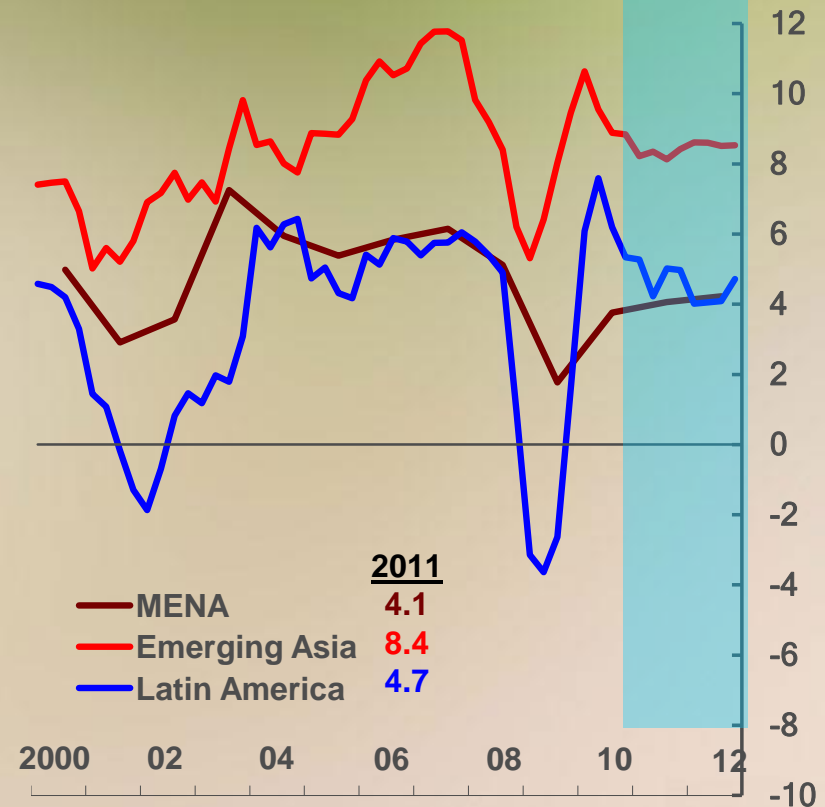
World: Driven mainly by emerging markets: 6½ percent, rather than advanced economies: 2½ percent

Real GDP Growth (percent change from a year earlier)

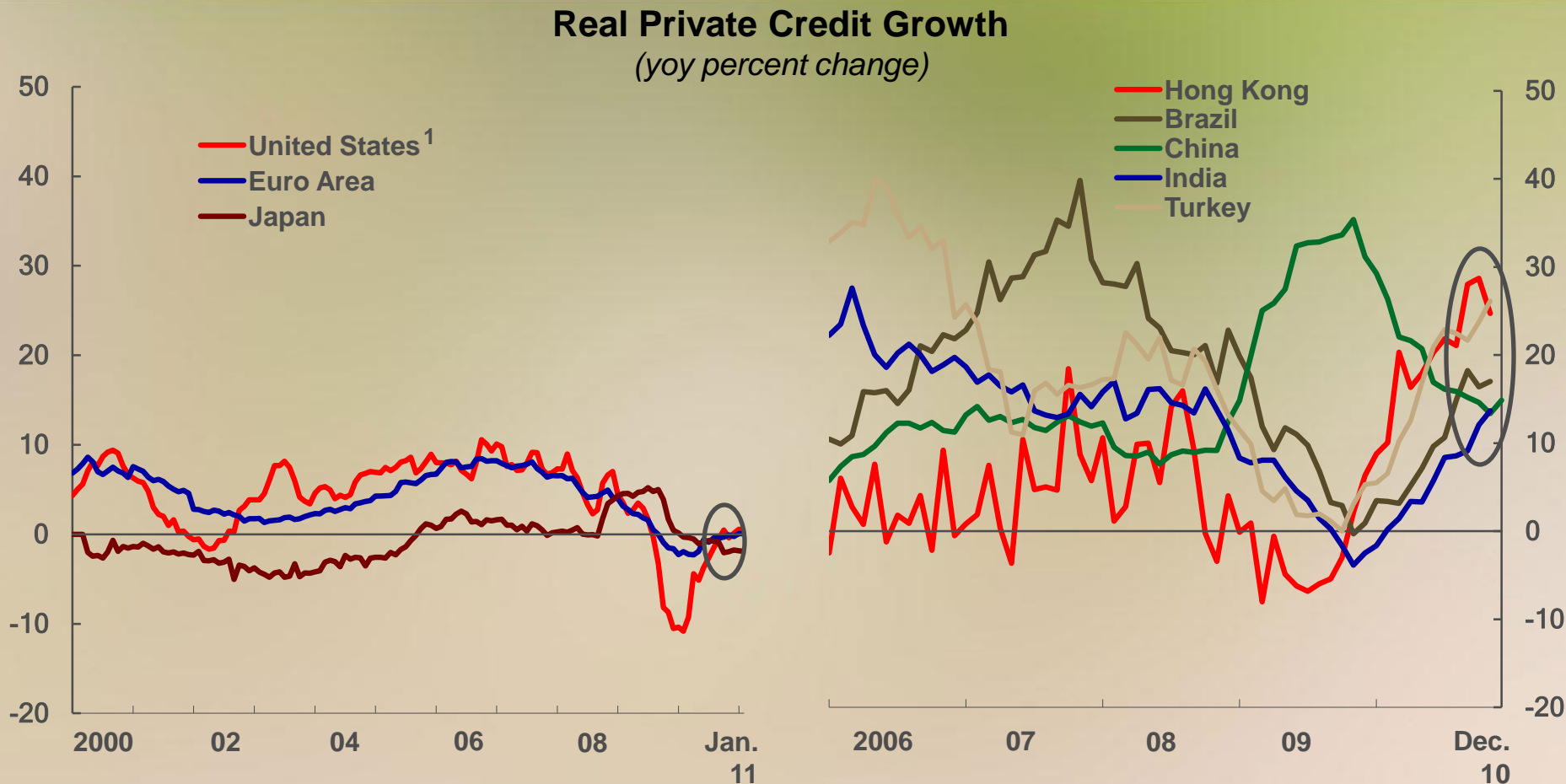
Advanced Economies



Emerging Economies



World: Low credit growth in advanced economies, but buoyant credit growth (overheating?) in emerging markets.



Source: Bank of Japan, European Central Bank, and the Federal Reserve Board.

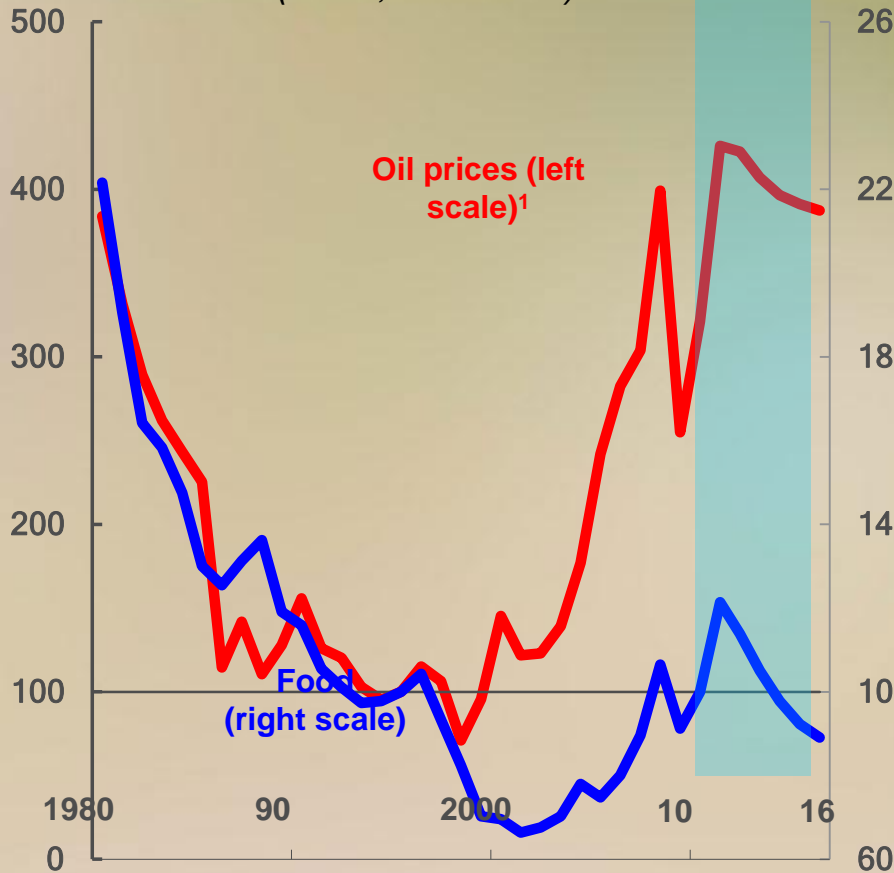
¹ Spike in late 2010 due to securitized credit card assets that banks owned and that were brought onto their balance sheets in 2010.



World: High commodity prices, due to structural, cyclical, and special factors, are a risk to the outlook.

Real Commodity Prices

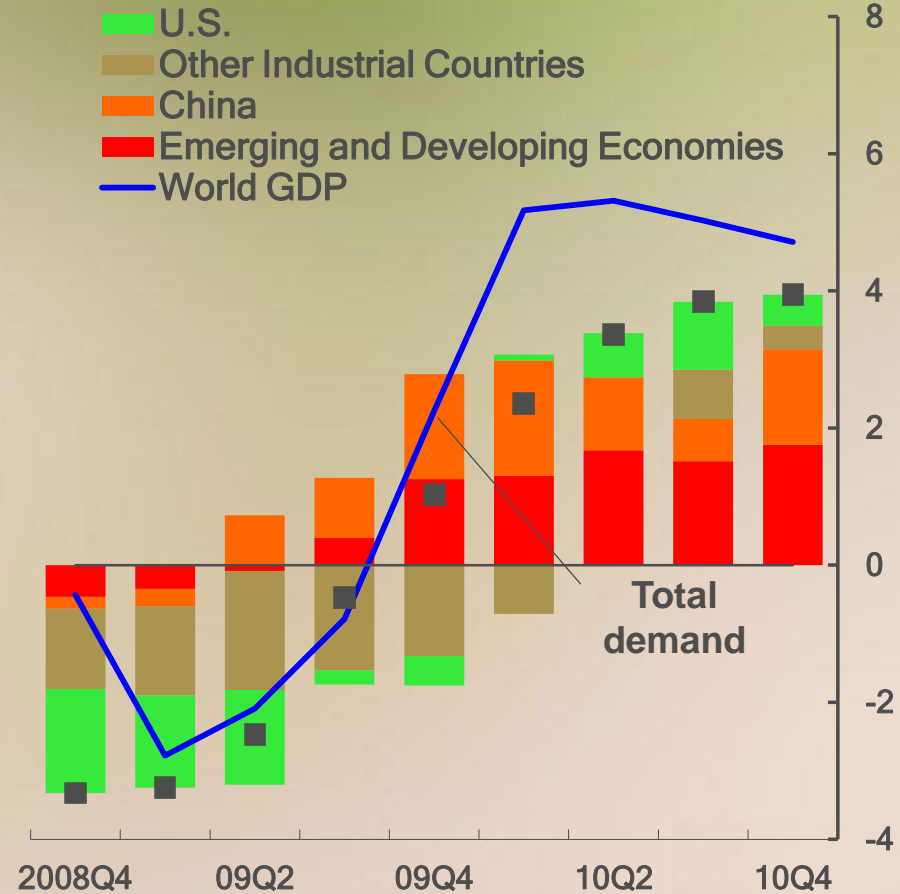
(index; 1995=100)



¹Simple average of spot prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil.

Global Growth of Oil Demand

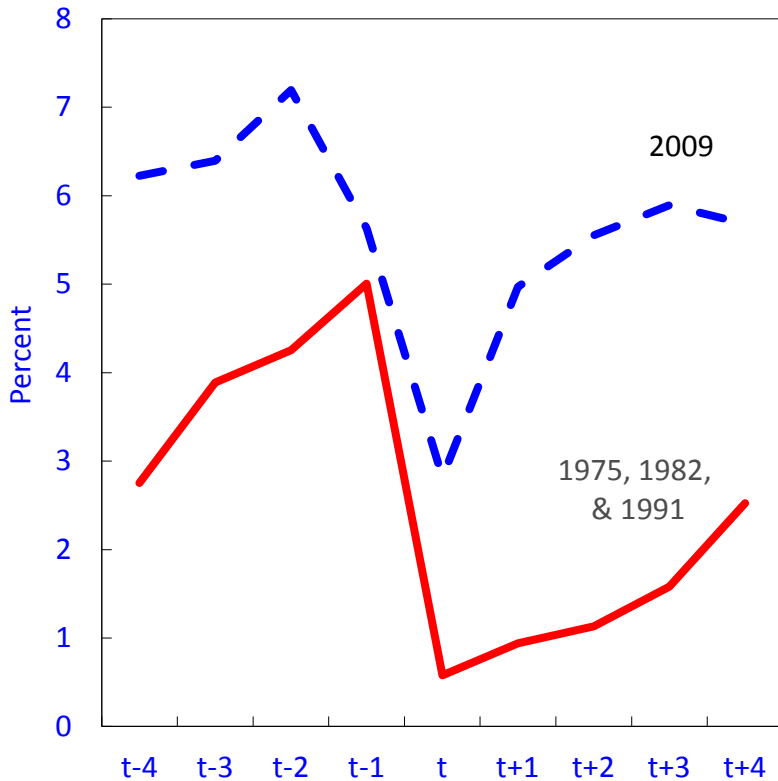
(percent)



Africa: Resilience in the face of the largest shock to hit the region since the 1970s

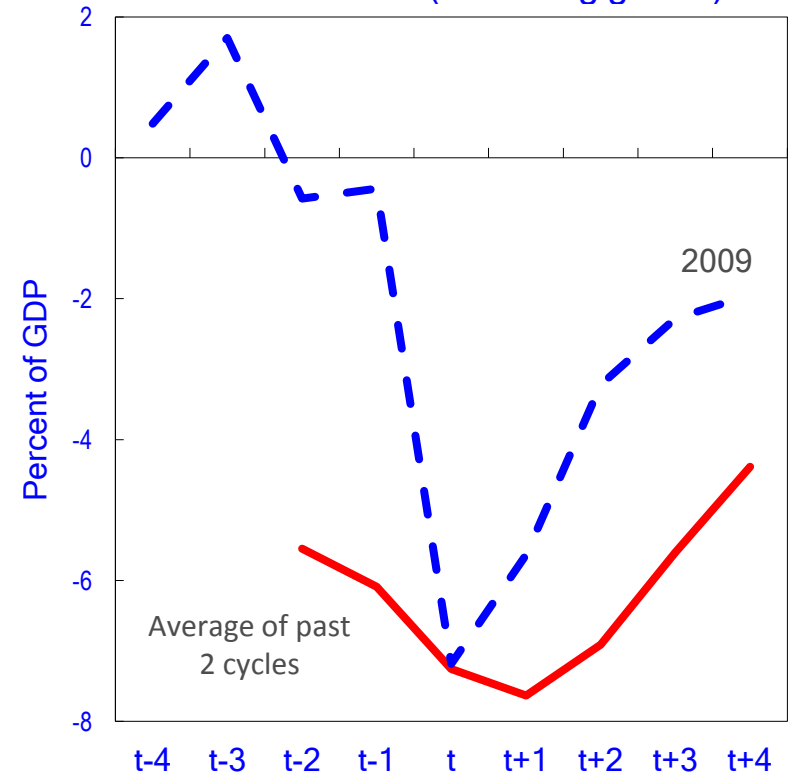
This time was **different** . . .

Real GDP Growth in SSA During Global Downturns



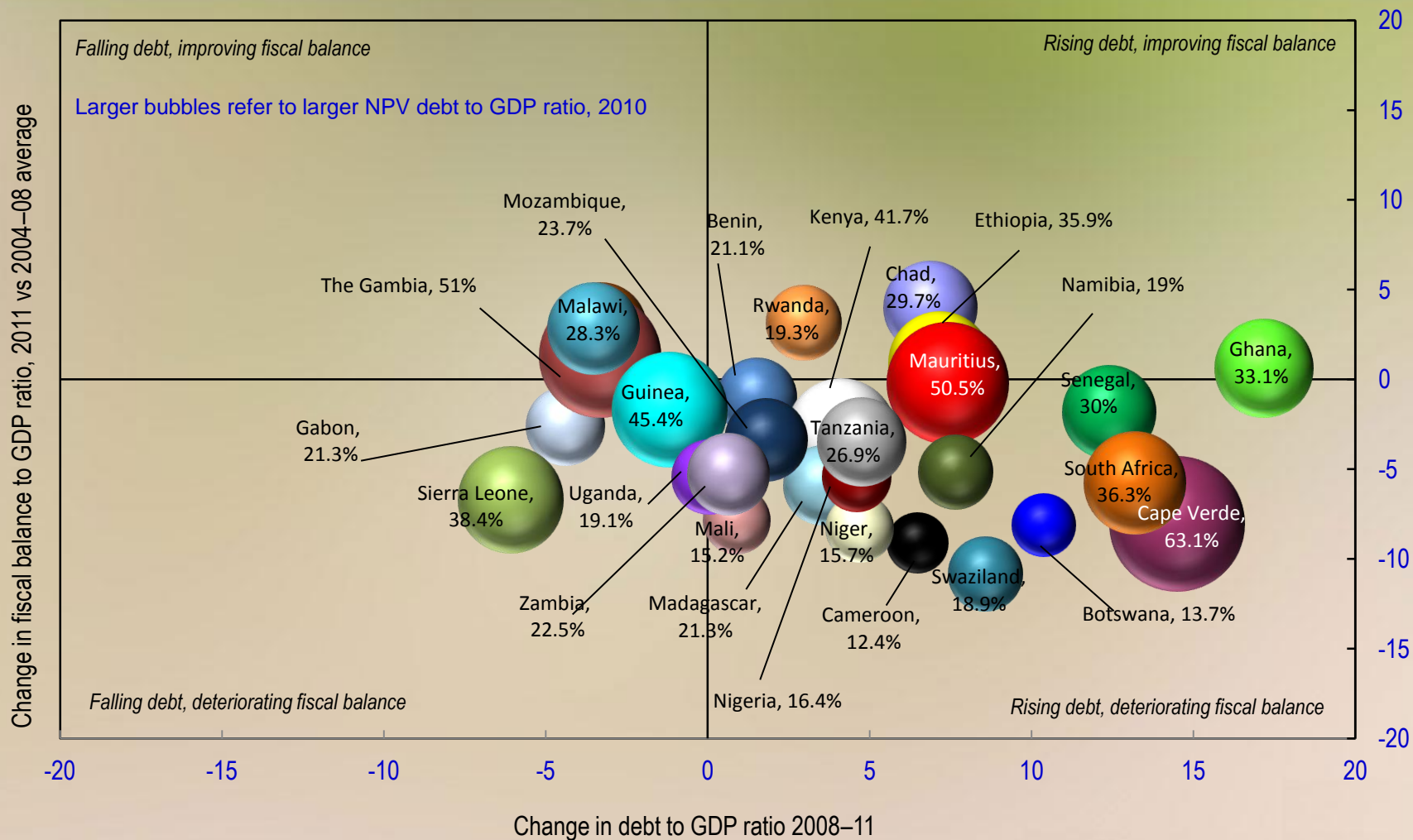
...partly due to **better** initial conditions

Fiscal Balance (excluding grants)

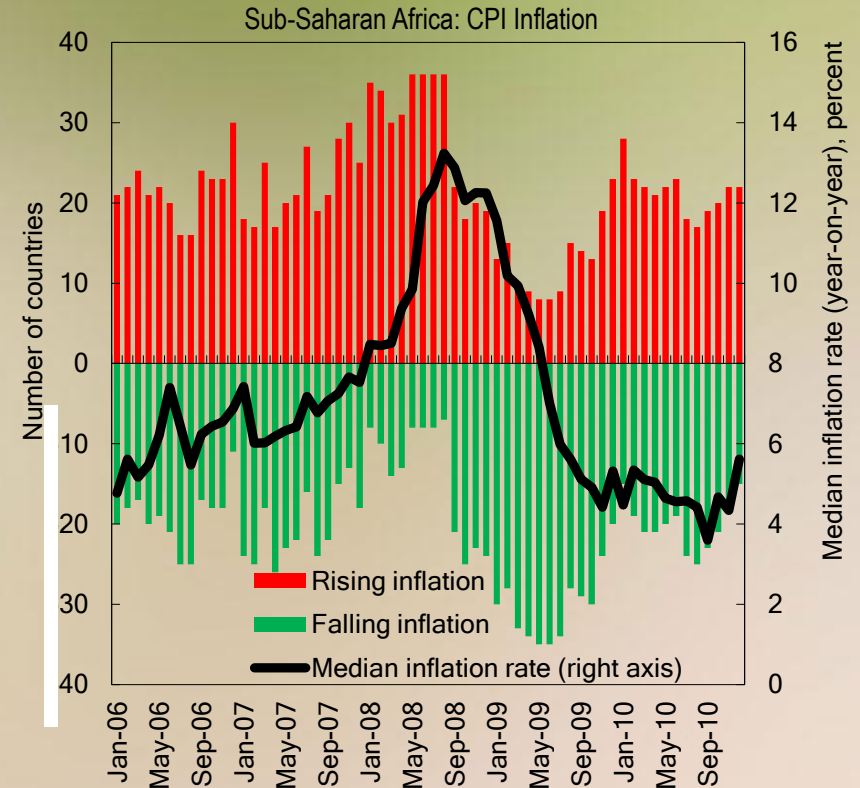
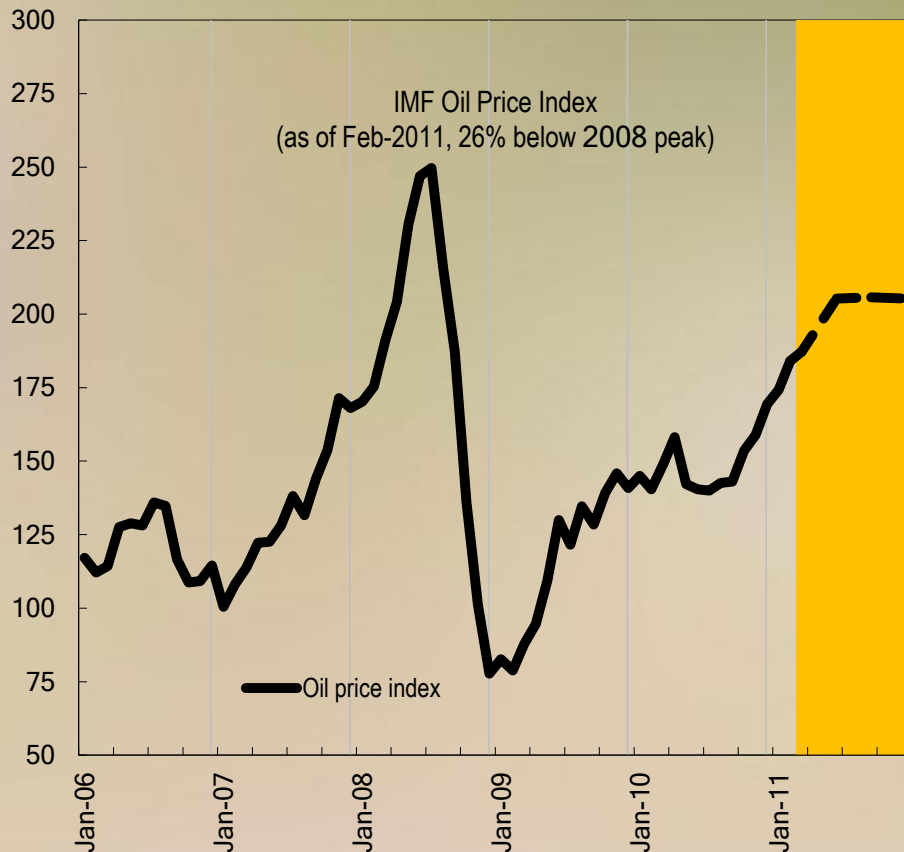


Africa: There was scope for fiscal stimulus.

Now need to strike balance between rebuilding policy buffers and addressing infrastructure, health, and education needs.



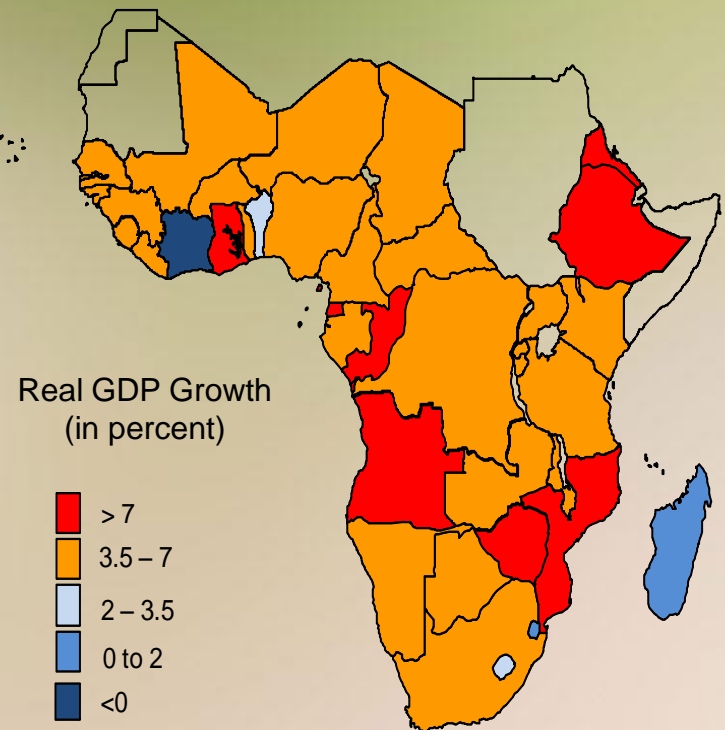
Africa: Higher oil prices \Rightarrow inflation. High oil prices may be permanent (given emerging market demand)



Africa: summing up

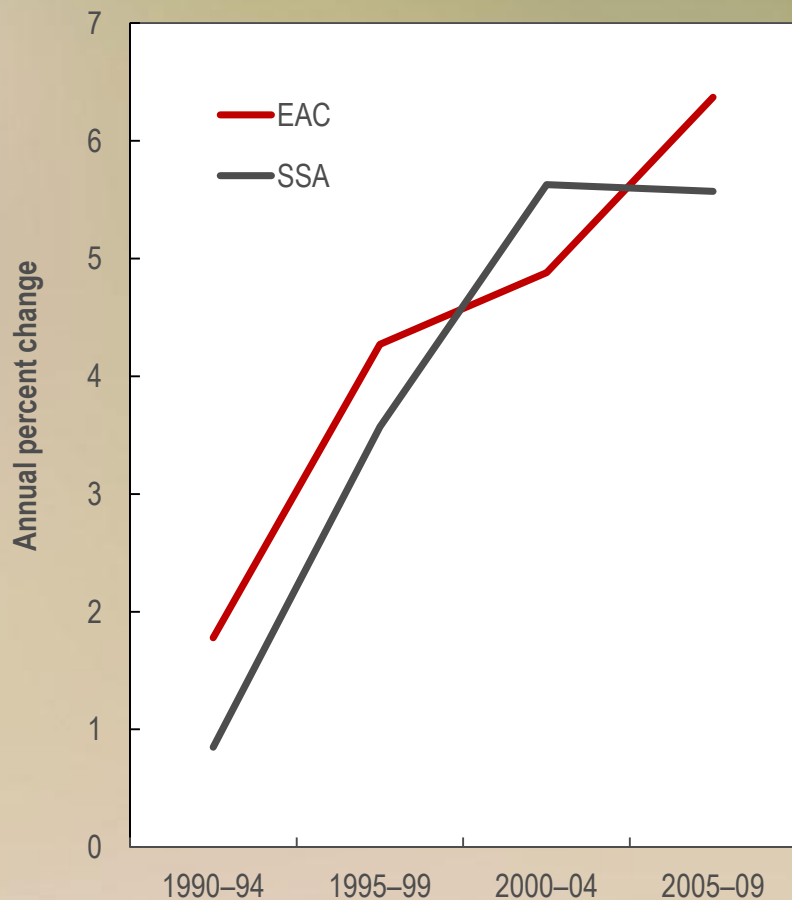
- Recovery is under way in most countries (5% on average). May take some time for southern Africa to reach pre-crisis growth rates.
- Resilience evident throughout SSA, mainly because of much improved policies prior to global recession.
- East African countries are faring particularly well: Mozambique, Tanzania, Uganda and Malawi and Zambia. Also some oil exporters: Nigeria, Republic of Congo.
- Risks come from rising government debt levels in some countries and the current food and fuel price shock, which will impact on poverty, fiscal and external balances and inflation.

Sub-Saharan Africa: 2011 Growth Outlook



EAC: Strong GDP growth over the last two decades

Real GDP Growth¹

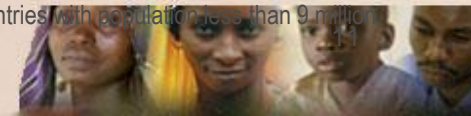


¹ Weighted by purchasing power parity GDP.

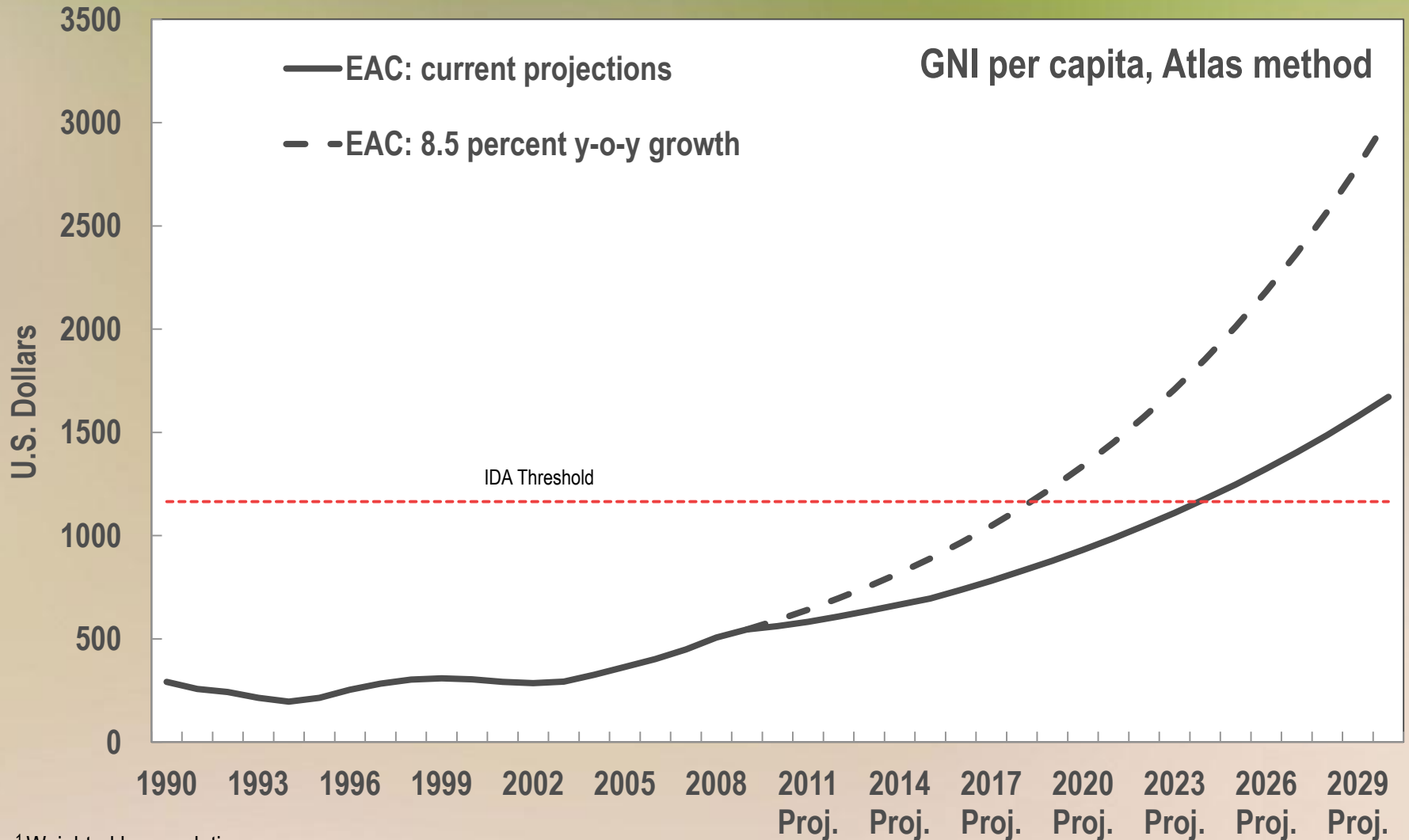
Top 20 Fastest-Growing Economies in 2005-09

Ranking	Country	Real GDP Growth (percent change)
1	Angola	14.7
2	Afghanistan, I.R. of	12.9
3	Ethiopia	11.4
4	China, People's Republic of	11.4
5	Myanmar	9.4
6	Uganda	8.3
7	Uzbekistan	8.2
8	India	8.2
9	Rwanda	7.9
10	Sudan	7.8
11	Cambodia	7.8
12	Belarus	7.7
13	Dominican Republic	7.4
14	Vietnam	7.4
15	Mozambique	7.1
16	Tanzania	6.9
17	Peru	6.8
18	Argentina	6.8
19	Kazakhstan	6.7
20	Malawi	6.5
EAC		6.4
SSA		5.6

Note: Excluding countries with population less than 9 million



EAC: Even faster growth needed to “take off”



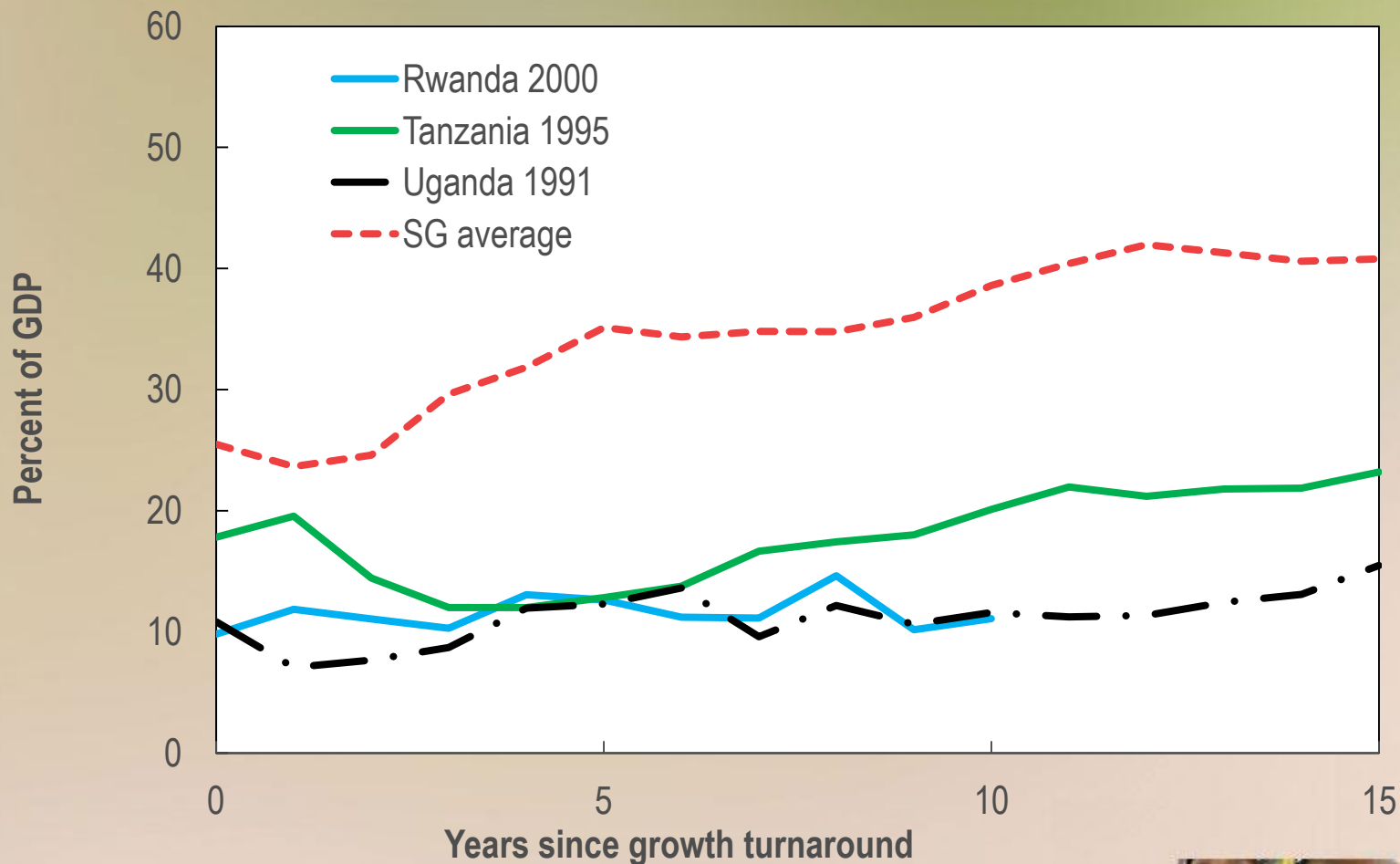
¹ Weighted by population

Source: World Bank, *World Development Indicators*; IMF, *World Economic Outlook* and IMF staff estimates.



EAC: Need to emphasize export growth to catch up

Evolution of exports since growth turnaround

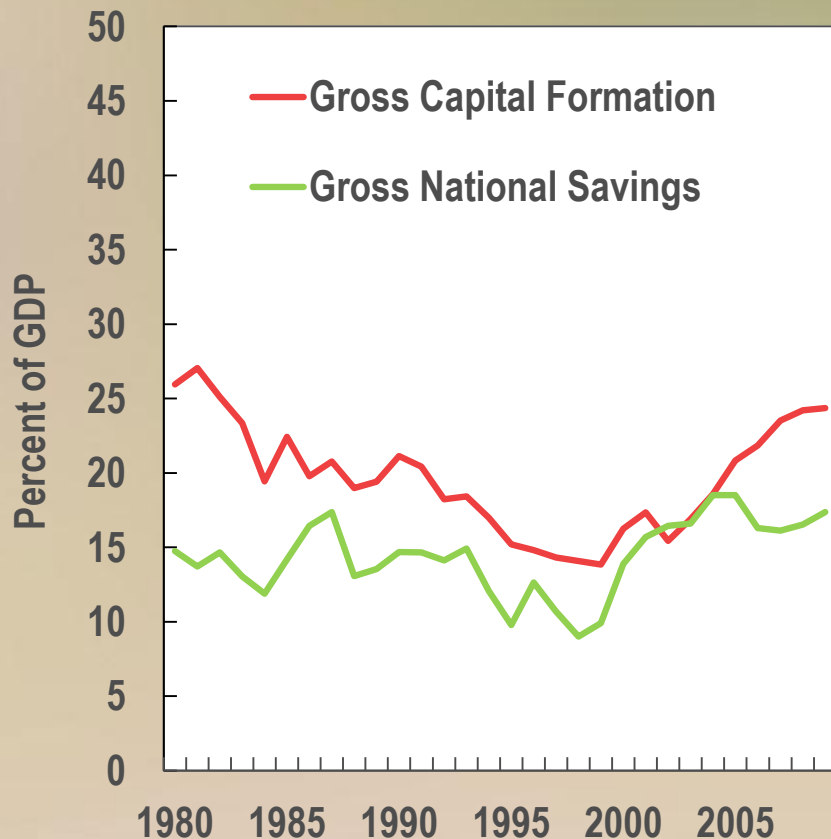


SG: "sustained growth" countries – China, Indonesia, Malaysia, Chile, Korea, etc.

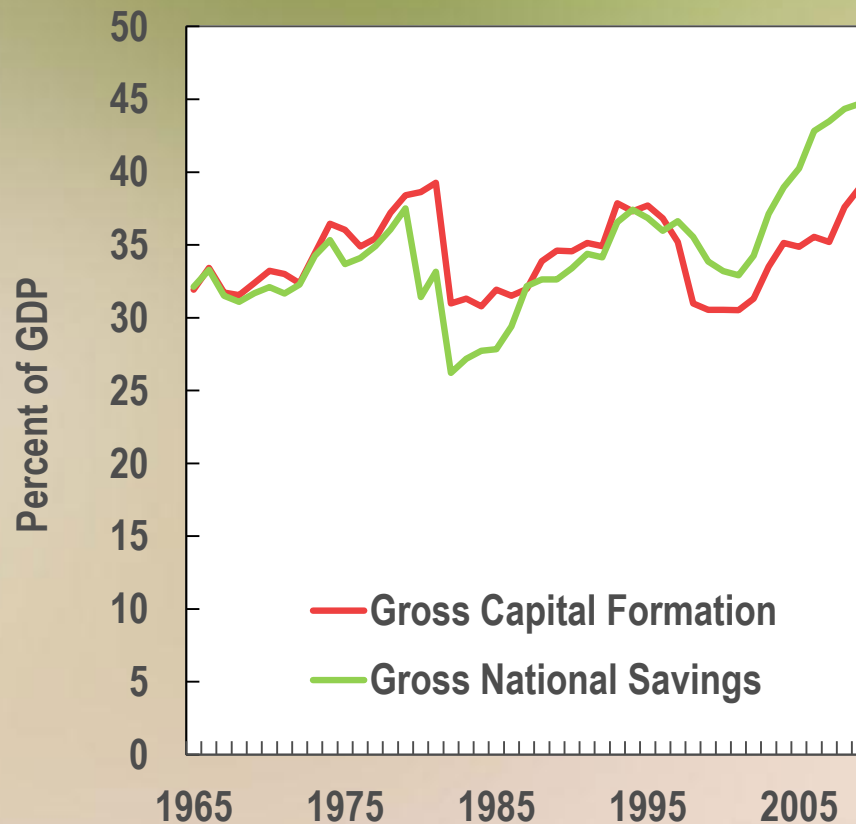


EAC: Need to raise domestic savings and investment

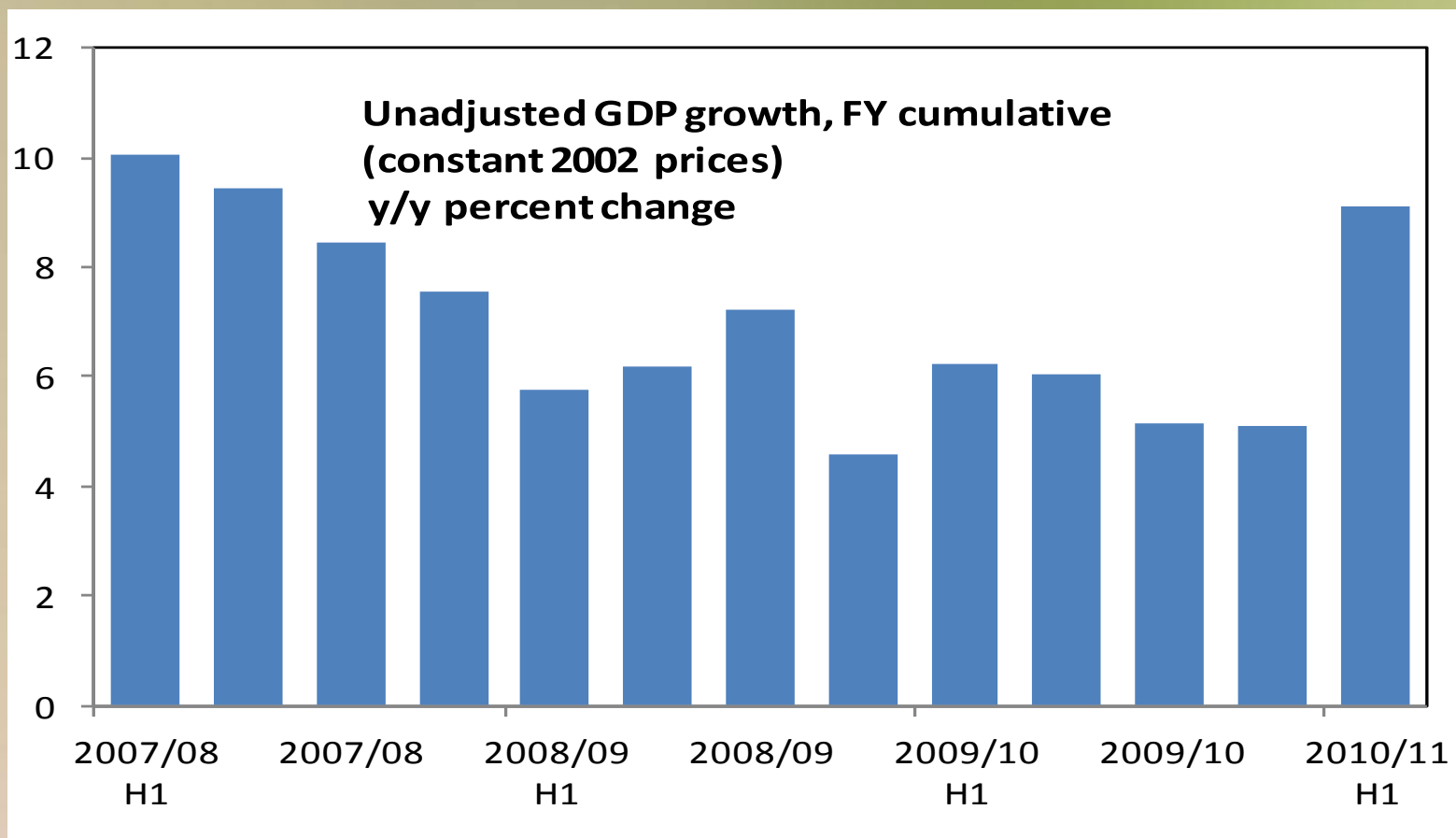
EAC: Investment and Savings



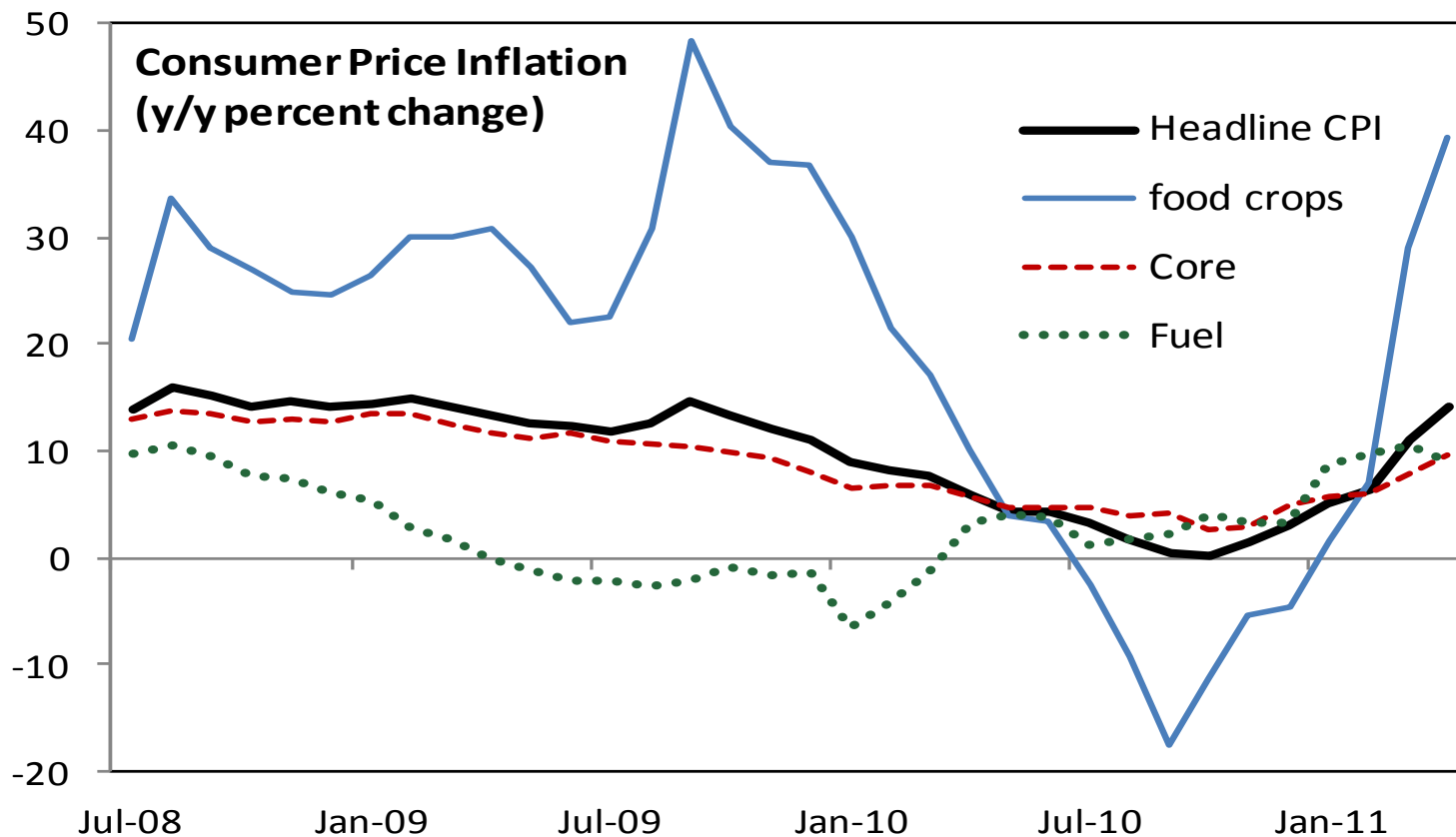
SGs: Investment and Savings



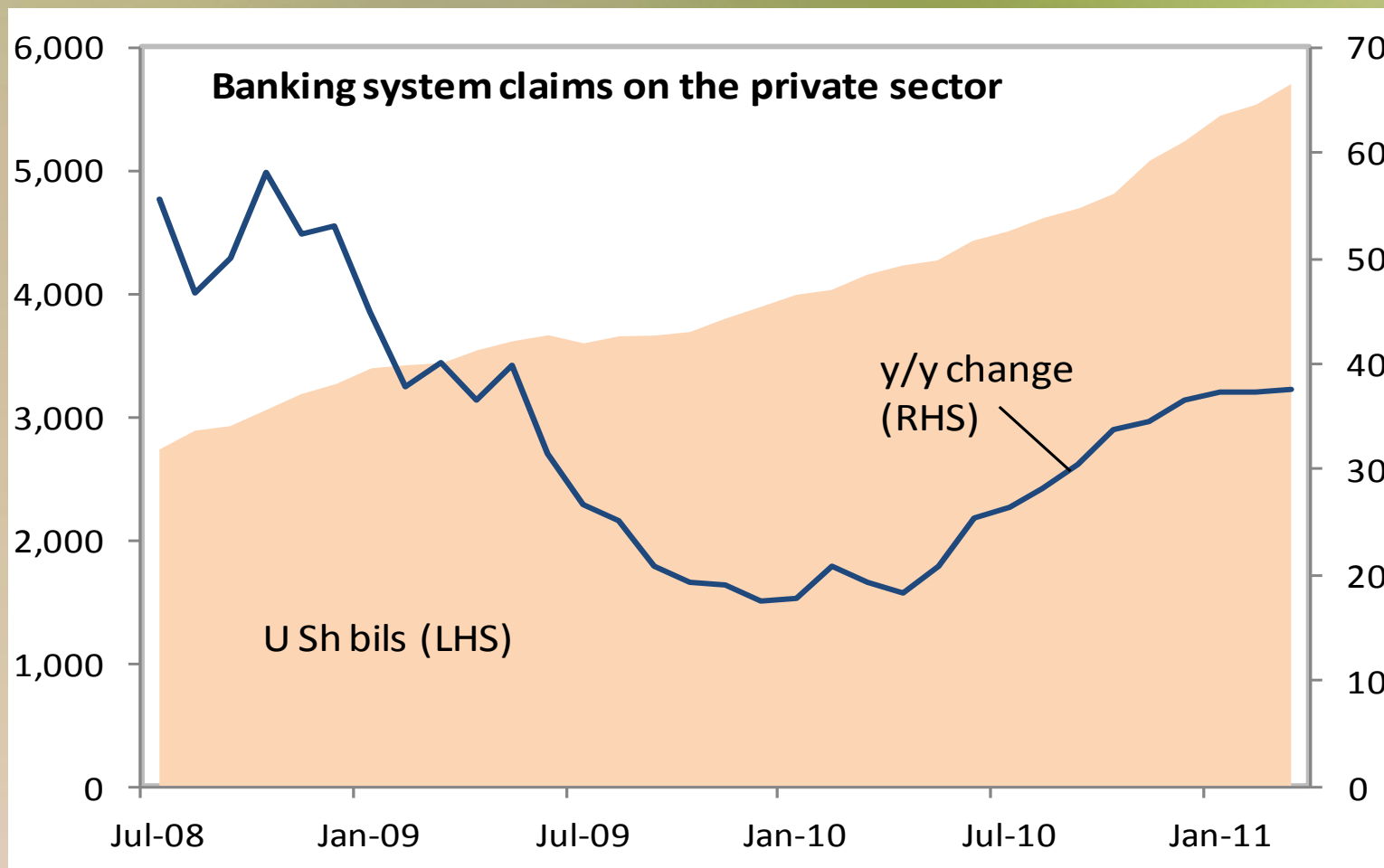
Uganda: GDP growth dipped during crisis, but is recovering



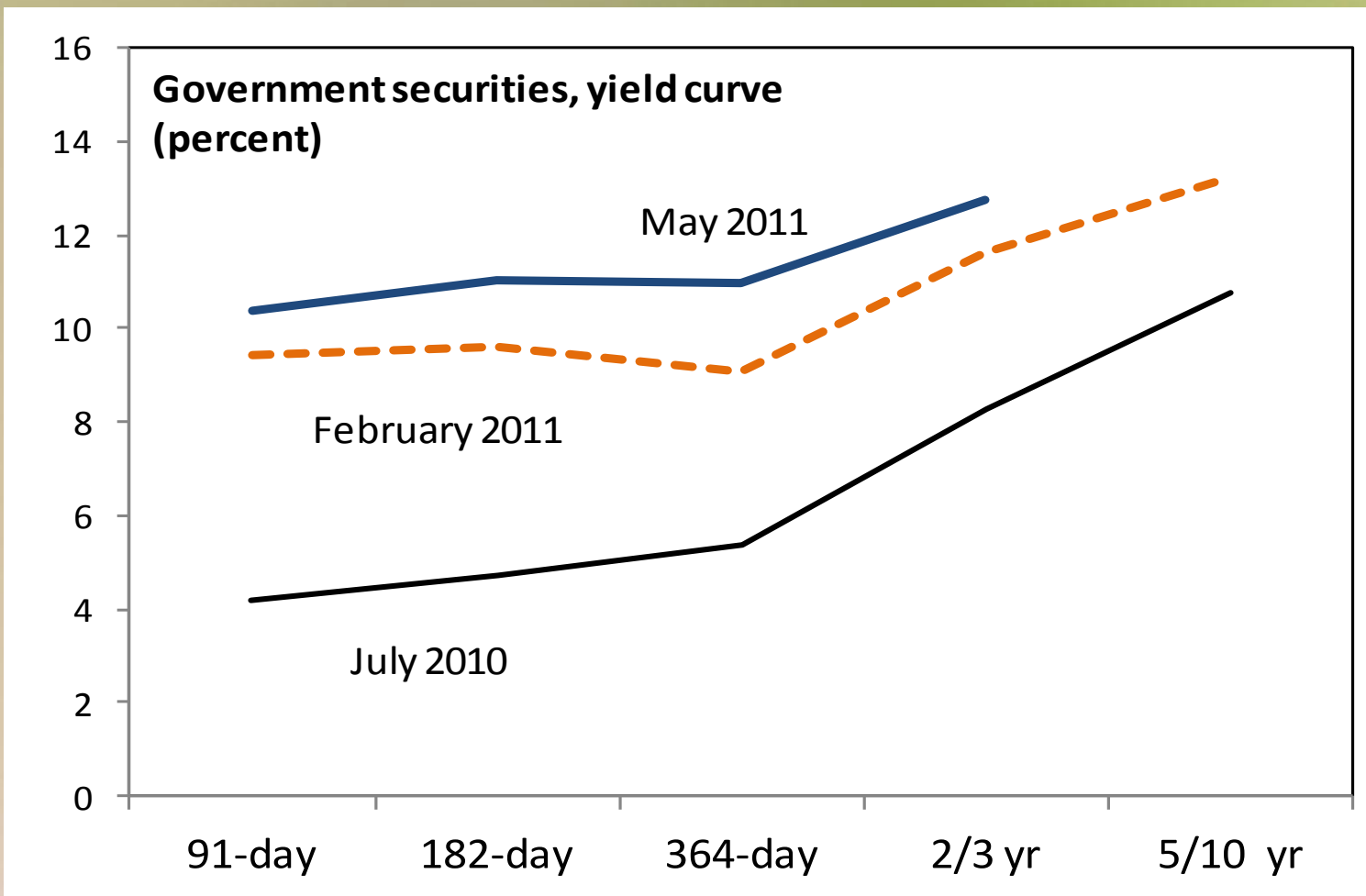
Uganda: Inflation upswing, driven mainly by food



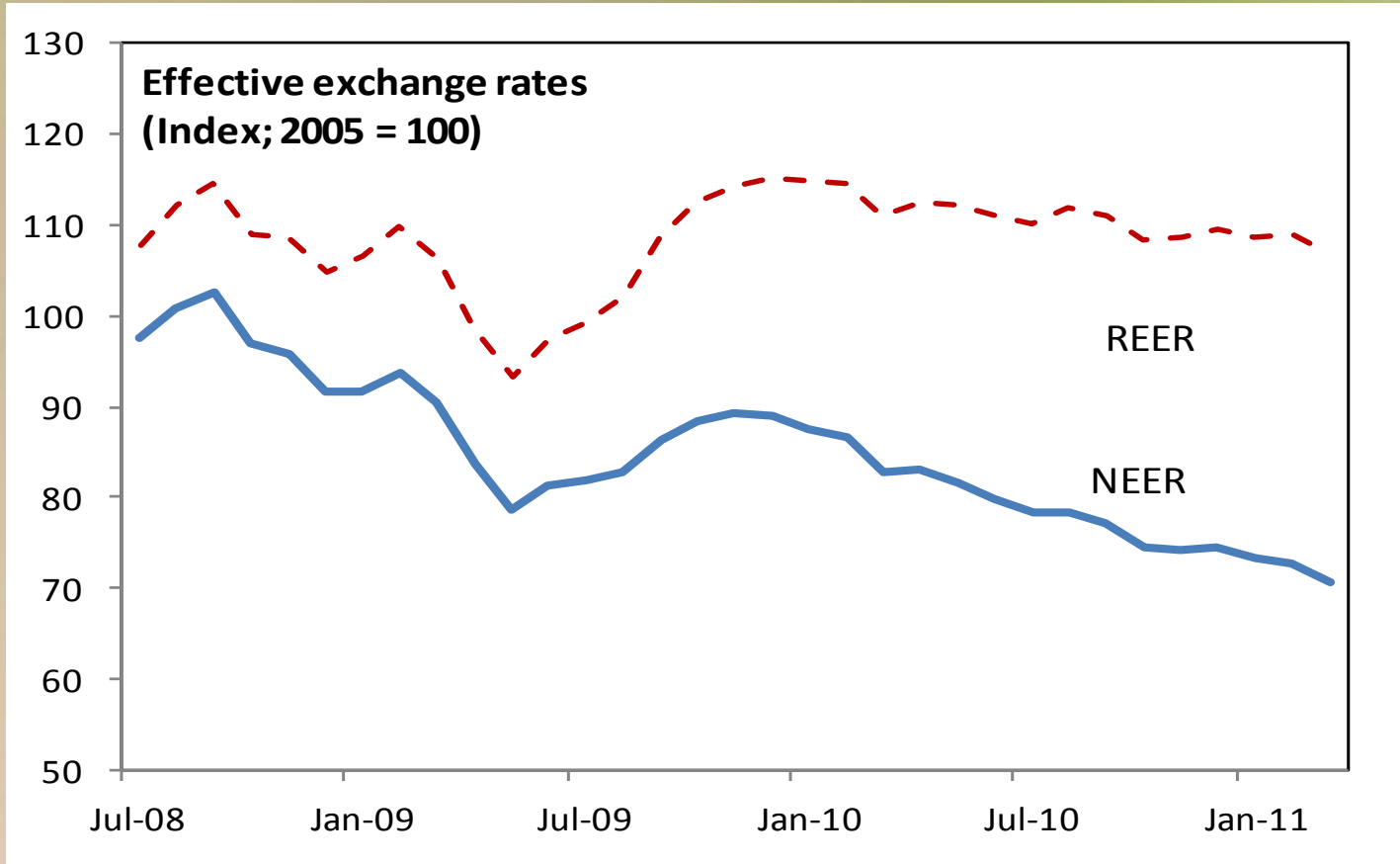
Uganda: Monetary and credit growth have been robust too



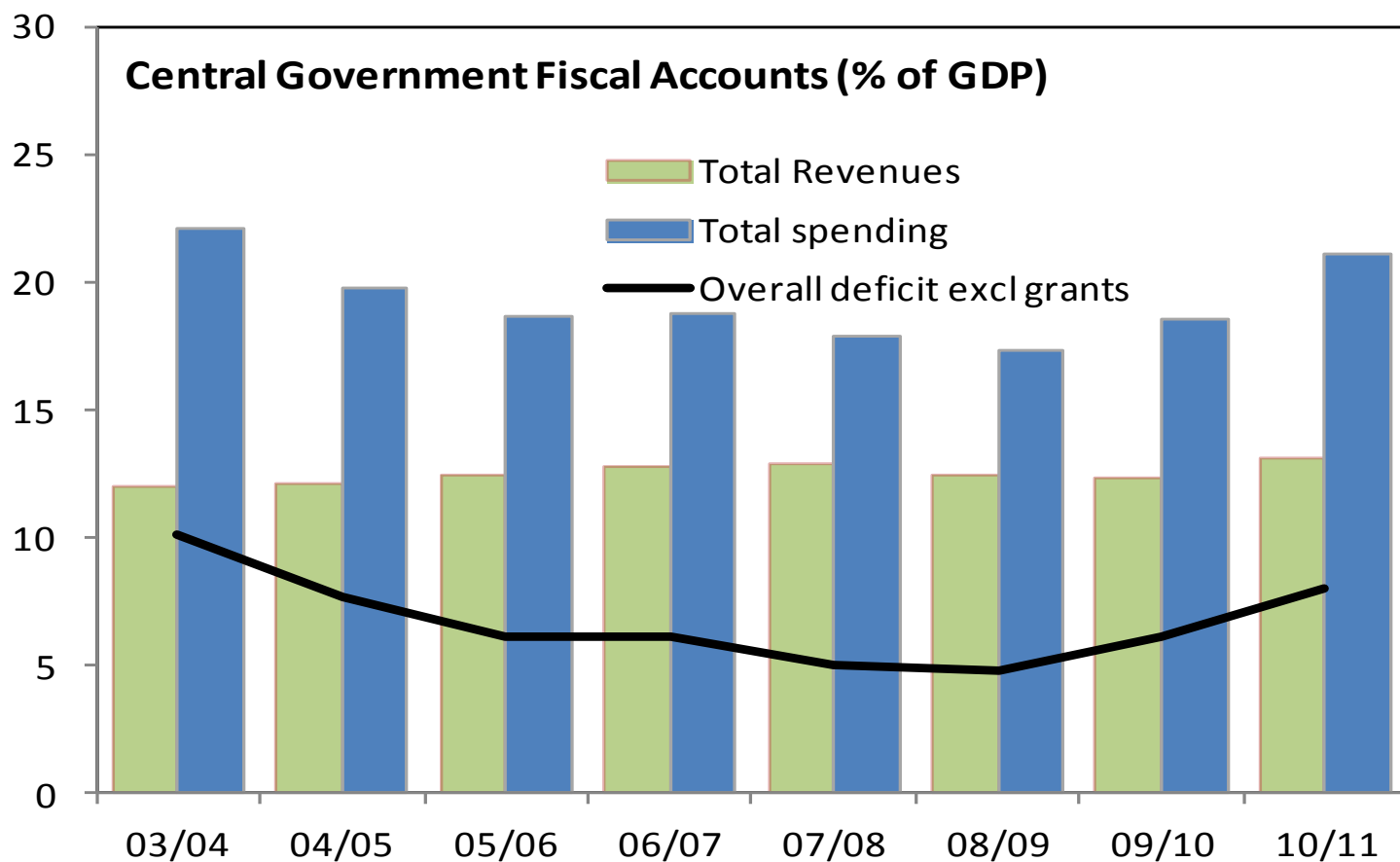
Uganda: In reaction, interest rates have risen



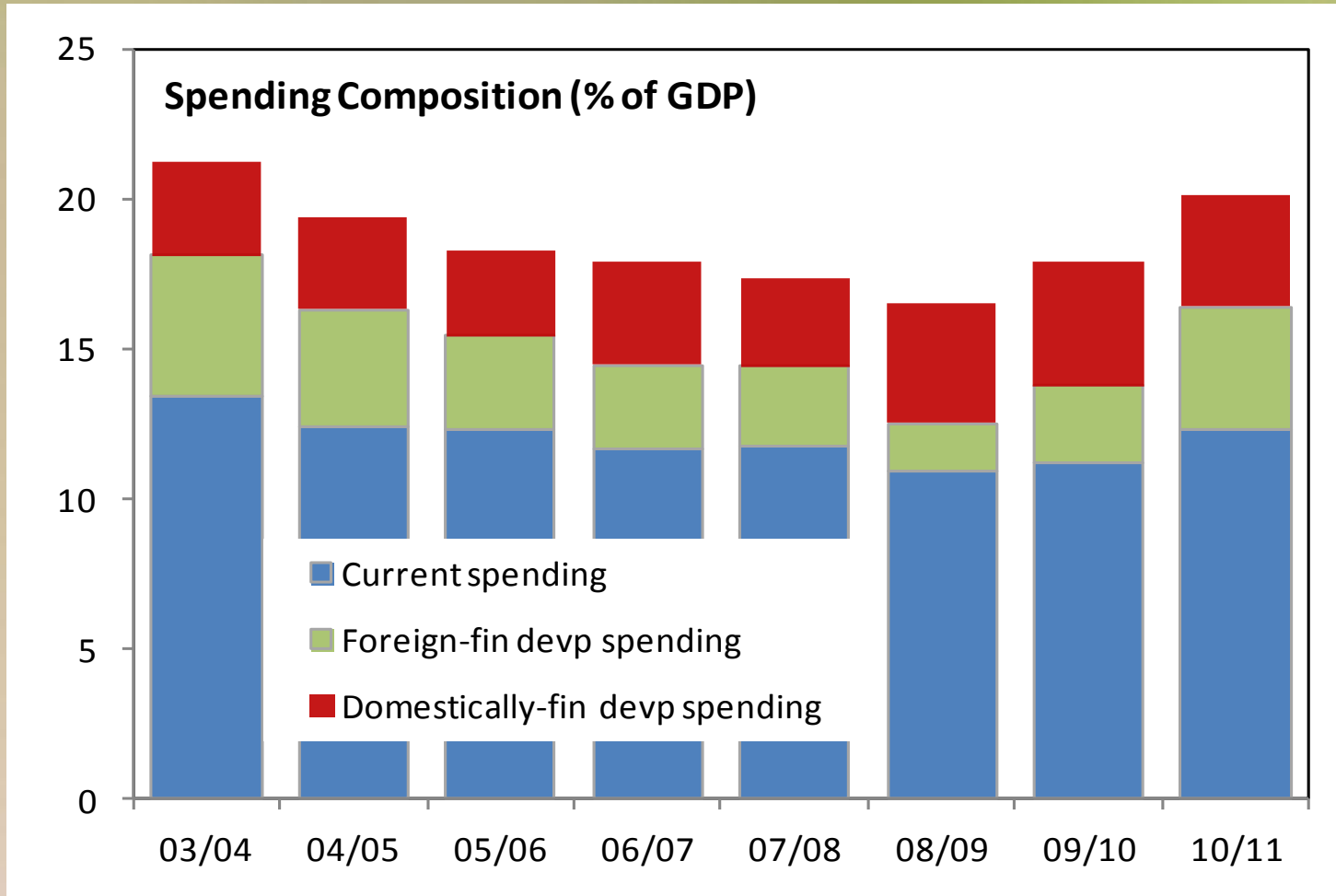
Uganda: While not much change in effective exchange rates



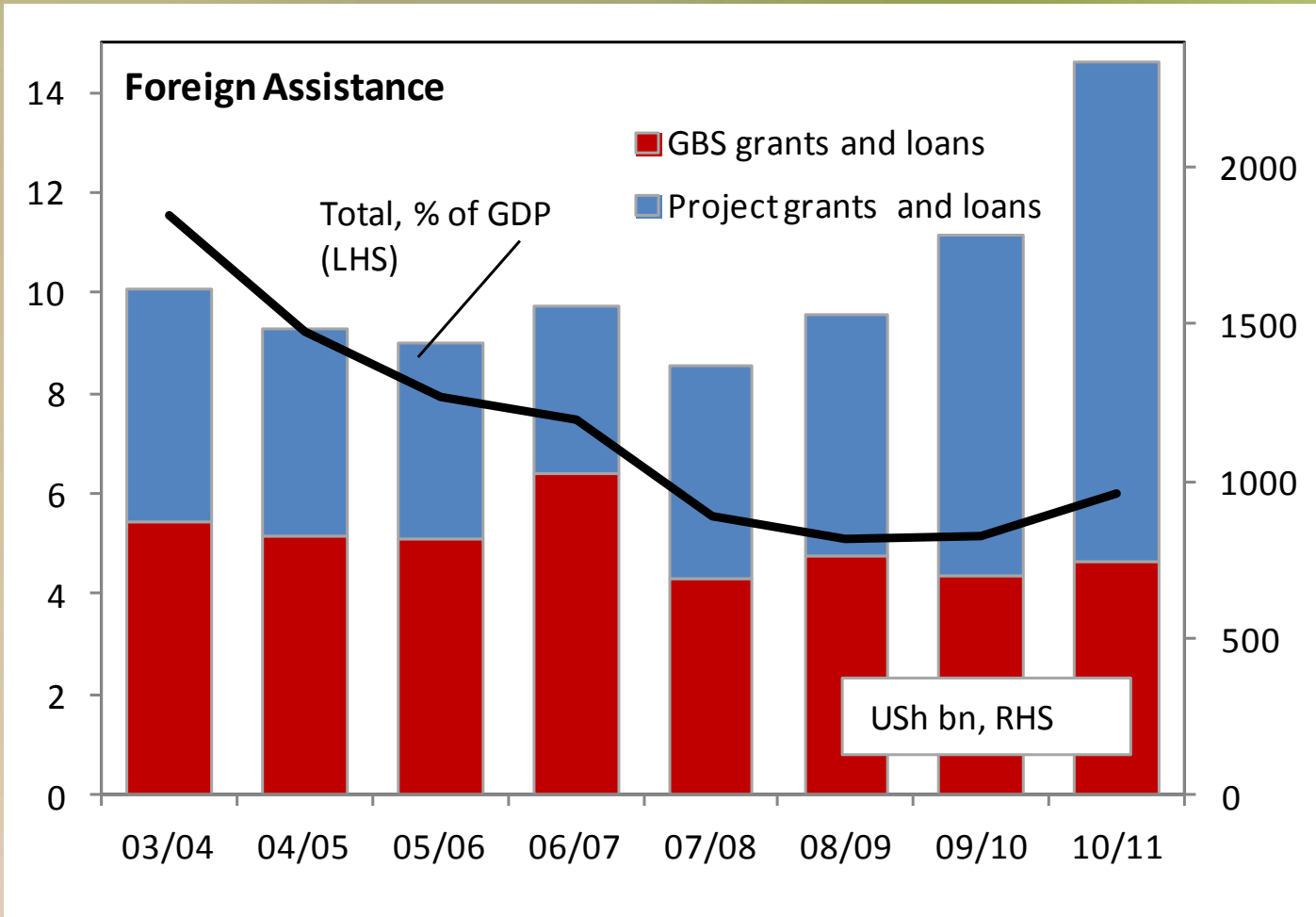
Budget: Deficit has widened somewhat



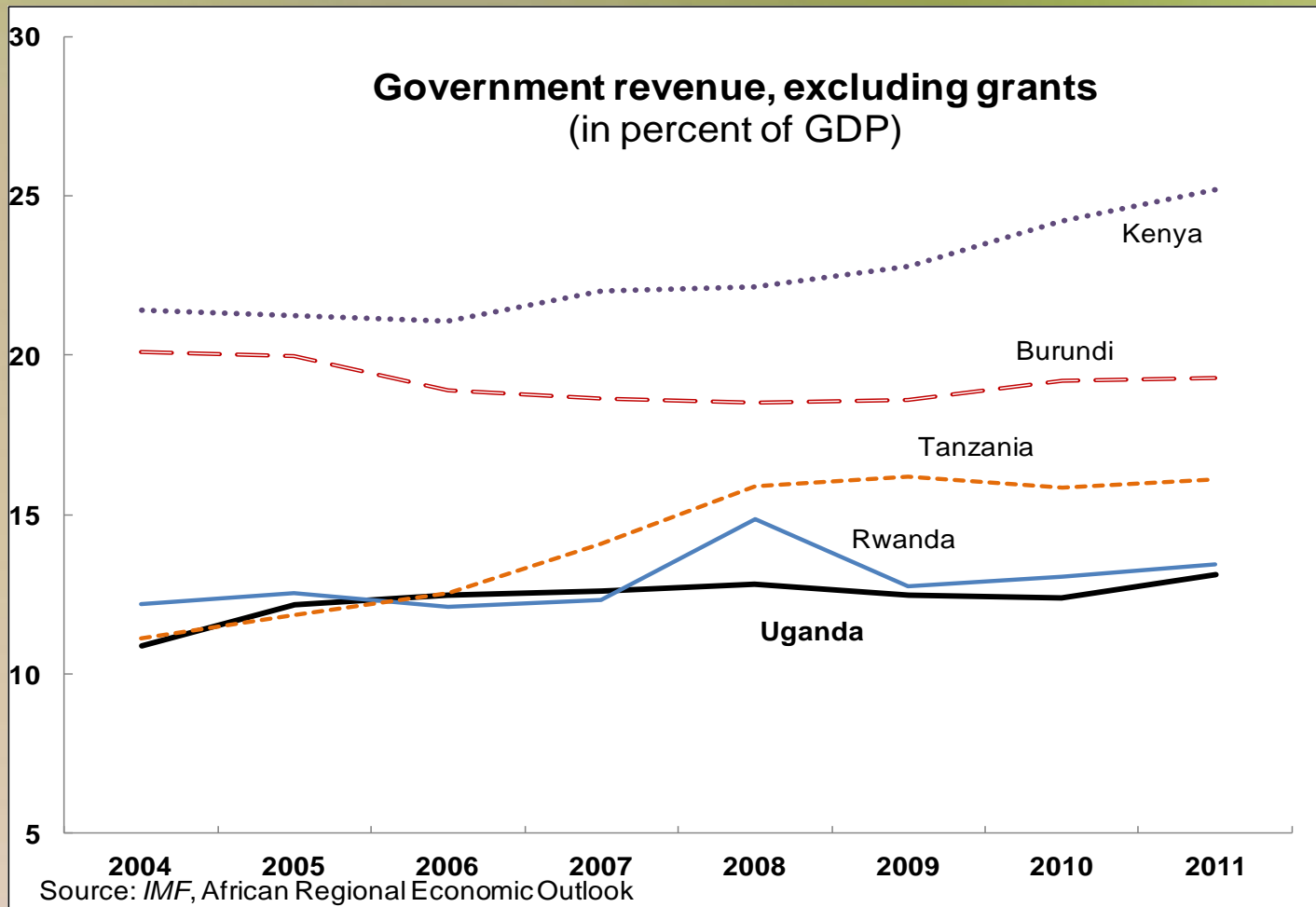
Budget: Partly due to higher current, but also development spending



Budget: Aid has fallen over time, especially budget support. But now seems to be a shift to project assistance



Budget: Revenue performance is a key issue



Budget: Welcome effort to begin eliminating exemptions, note politics behind lower sugar and kerosene excises

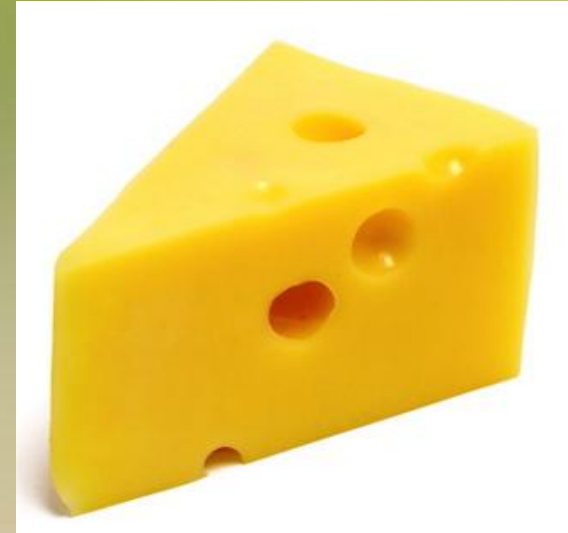
- Sugar and kerosene excise tax reductions cost Ugx 20 billion
- Scrap investment trader regime – VAT refund system
- Issue and enforce transfer pricing guidelines
- Kenya already has them

But need to do more next year (involving EAC to avoid tax competition “race to bottom”)



Budget: Consider “Swiss cheese” of VAT exemptions:

- Computers, software
- Petroleum products
- Poultry and livestock feed
- Inputs to hydropower projects
- Machinery and packing materials for agriculture and dairy



Note: almost all are intermediate goods, but VAT is a tax on final consumption



Budget: Expenditure discipline is needed to make budget realistic and implementable

- There was a lot of re-allocation in FY2010/11 budget as implemented
 - Could mean expenditure arrears
- Want to avoid supplementaries, but budget must be realistic
- Spending units (PS's/Accounting Officers) need to be punished if they commit government to spend without approval

I want a yacht, but IMF would fire me if I bought one for my office...



Budget: Still need to build capacity for public investment

- Improve project planning, appraisal, and implementation
 - Transparency is key
- Example: Karuma Hydropower project
 - Good opportunity to show government can do this well (but stakes are high)
- Roads (Entebbe, Jinja) - similar showcase opportunities

The more projects are done well, the more financing will be available in future.



Take-away messages for Uganda:

- Global environment remains uncertain
- Need to focus on promoting exports, and encouraging domestic savings and investment
- Tax system has too many exemptions
- Budget discipline is key
- Important to invest in infrastructure, but even more important to invest *well*





Thank you for your attention

