



Uganda Economic Outlook – *In the context of global uncertainty*

URA Consultative Business Forum

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Outline: Google Earth™ Approach

1. World Economic Outlook
2. Outlook for Sub-Saharan Africa
3. Uganda's Macro Outlook
4. Ugandan Budget Policy & Implications for tax policy

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



1 World: Still project global growth of 4½ percent— *but downside risks have clearly increased*

Prospects for World GDP Growth (percent change)

90% Confidence interval

50% Confidence interval

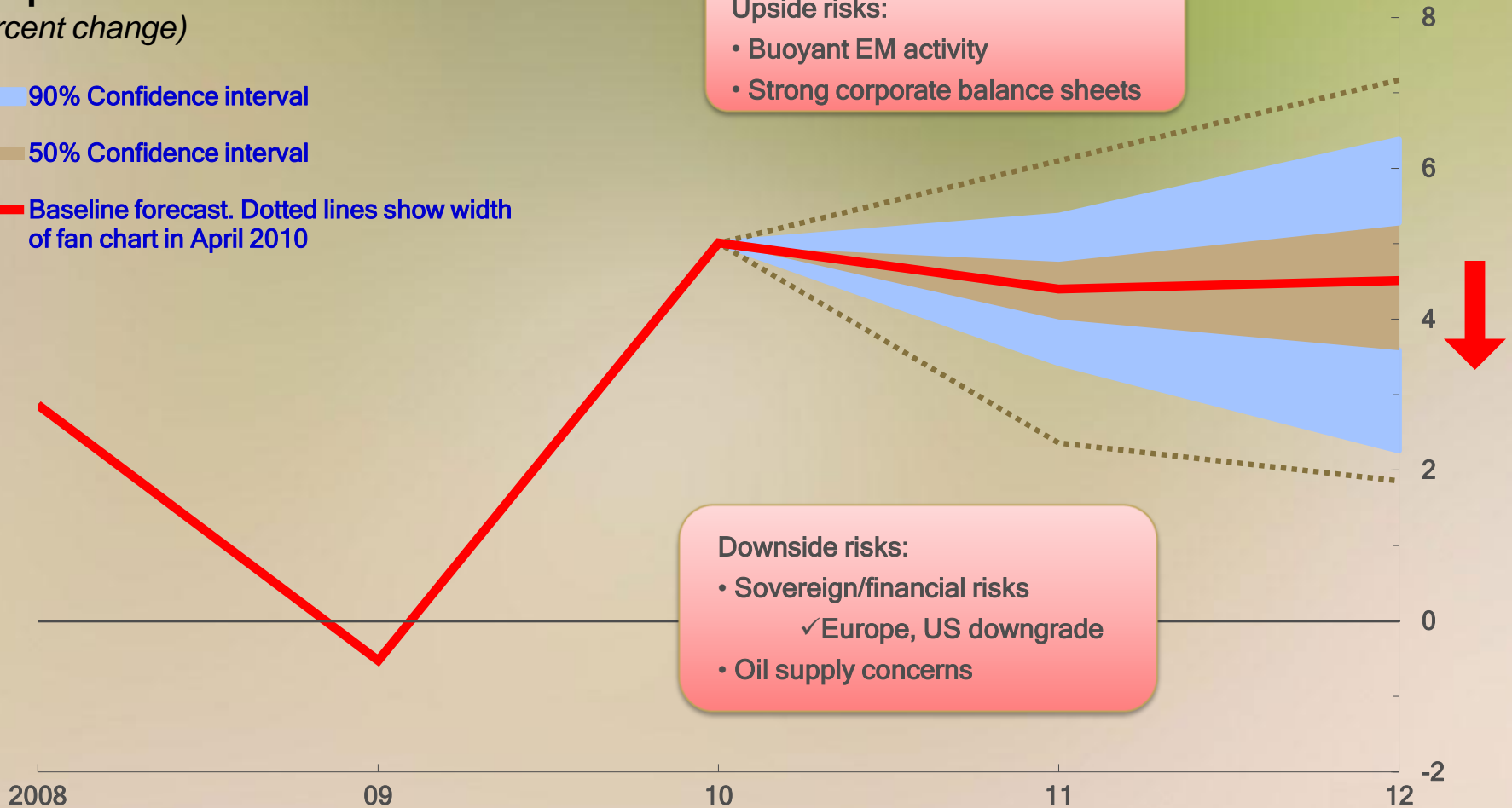
Baseline forecast. Dotted lines show width of fan chart in April 2010

Upside risks:

- Buoyant EM activity
- Strong corporate balance sheets

Downside risks:

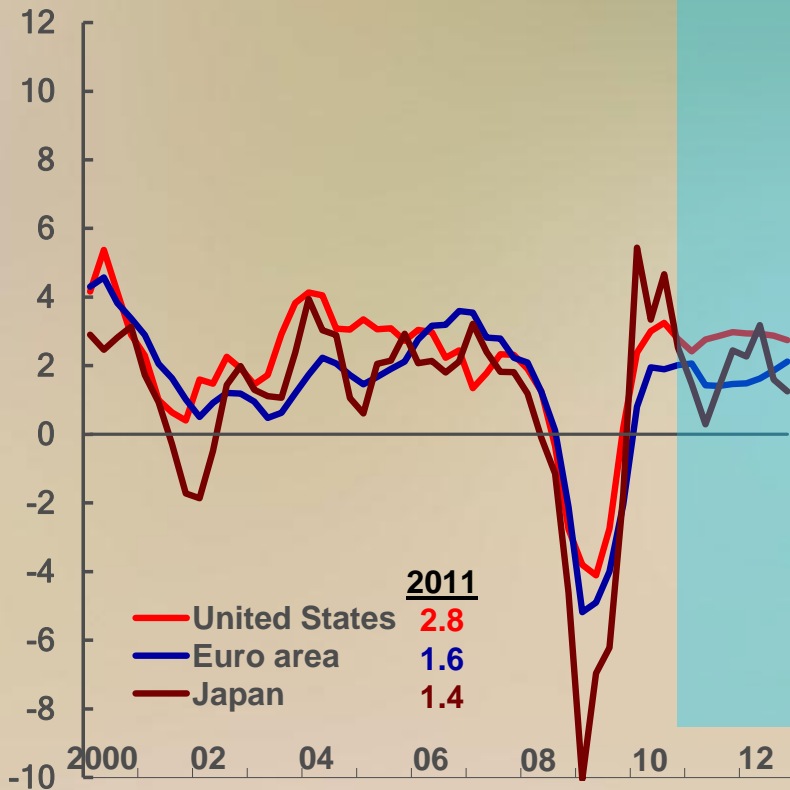
- Sovereign/financial risks
 - ✓ Europe, US downgrade
- Oil supply concerns



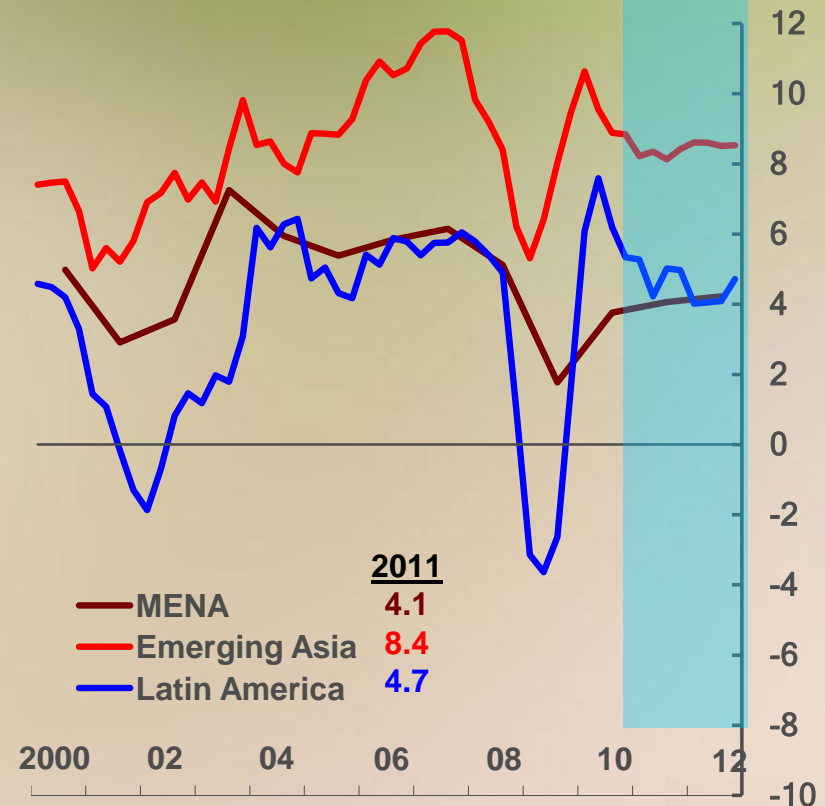
World: Driven mainly by emerging markets: 6½ percent;
 growth in advanced economies is lower: 2½ percent

Real GDP Growth (percent change from a year earlier)

Advanced Economies



Emerging Economies

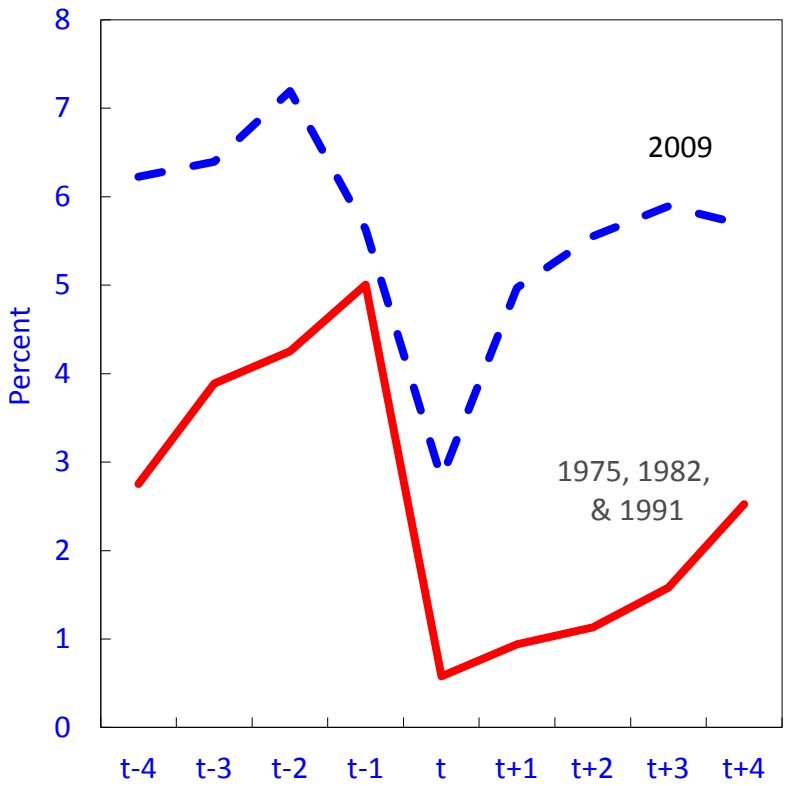


Africa: Resilience in the face of the largest shock to hit the region since the 1970s

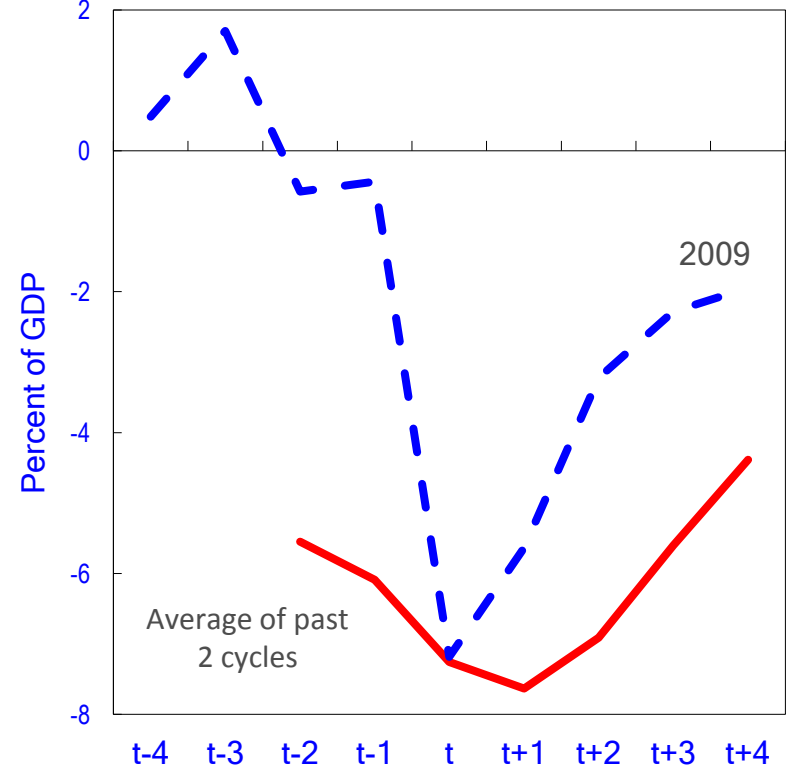
This time was different . . .

...partly due to better initial conditions

Real GDP Growth in SSA During Global Downturns



Fiscal Balance (excluding grants)



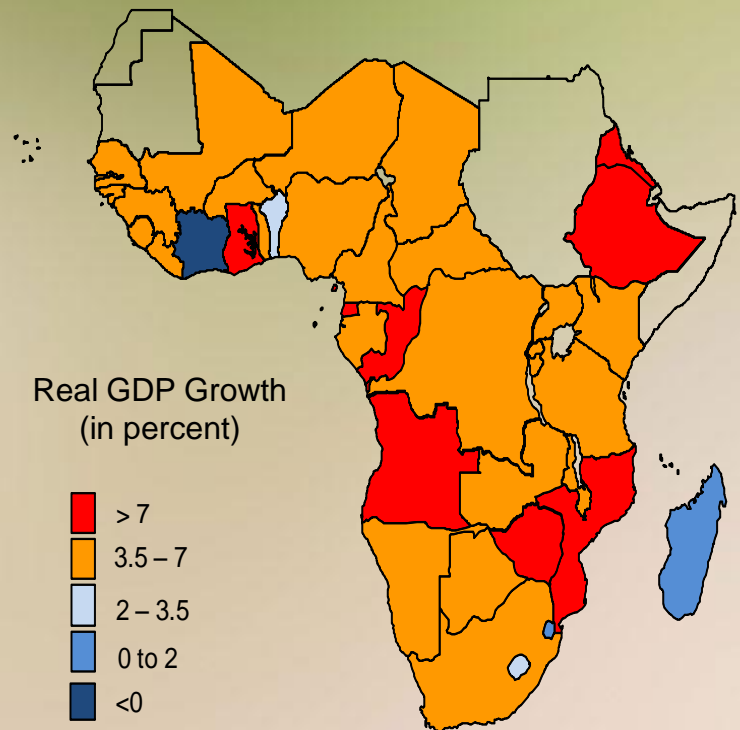
Africa: Like rest of world, faces much uncertainty

- Recovery was under way in most countries (projecting 5% on average). *But current global uncertainty has still to be factored in.*

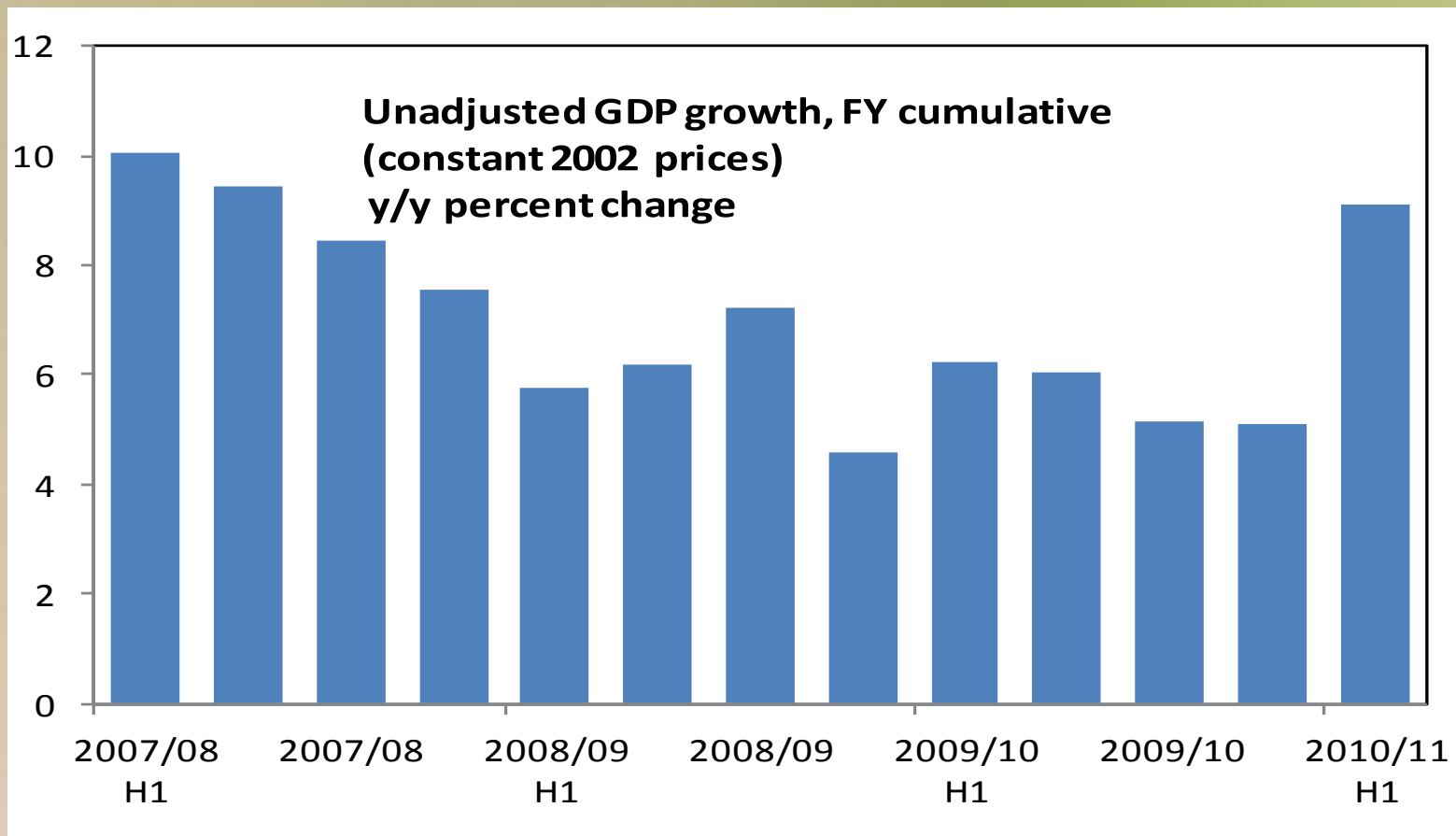
- Resilience evident throughout SSA, *mainly because of much improved policies prior to global recession.*

- East African countries weathered the 2008/09 global financial storm well. *But drought/food crisis in Horn of Africa is a real threat.*

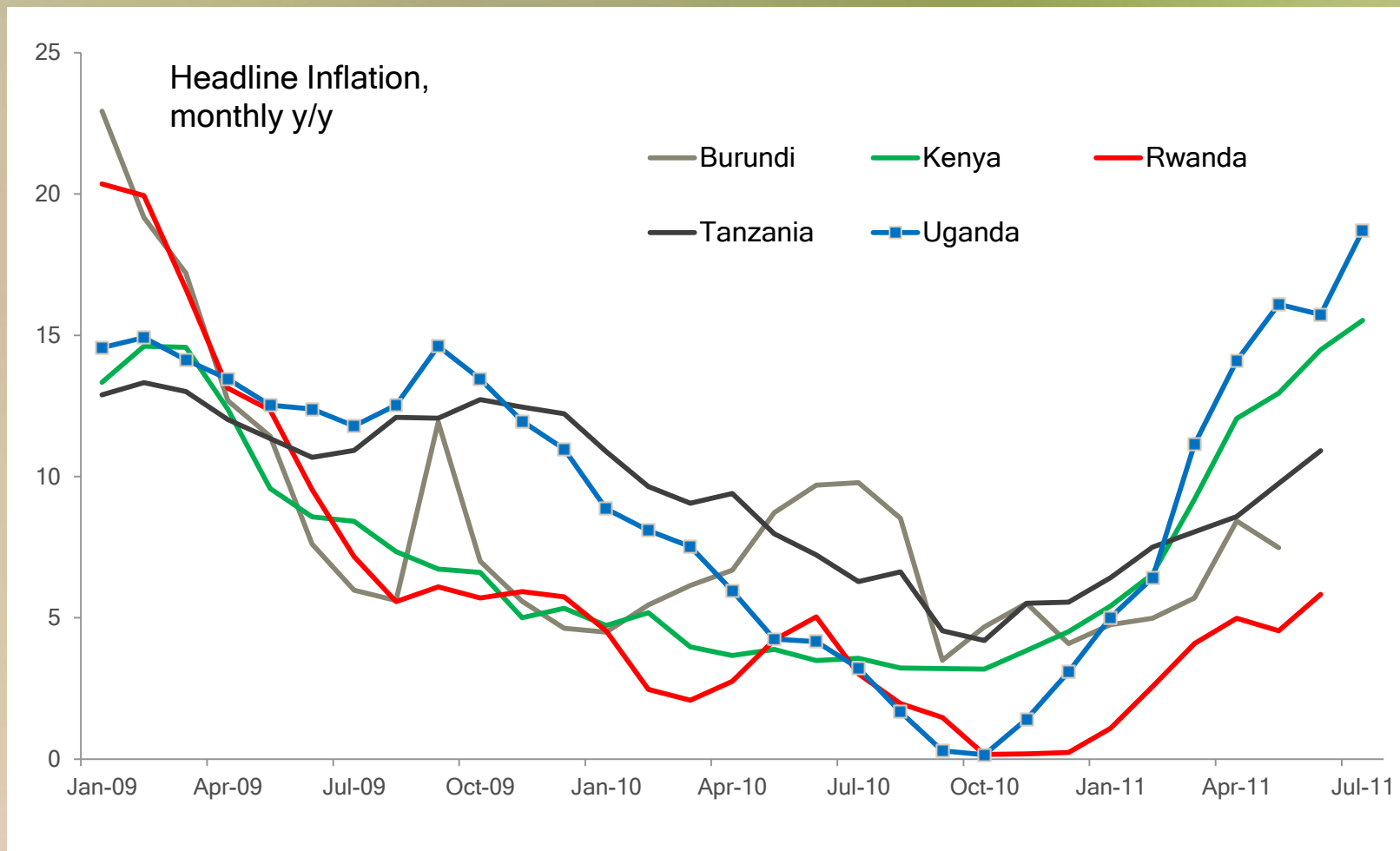
Sub-Saharan Africa: 2011 Growth Outlook



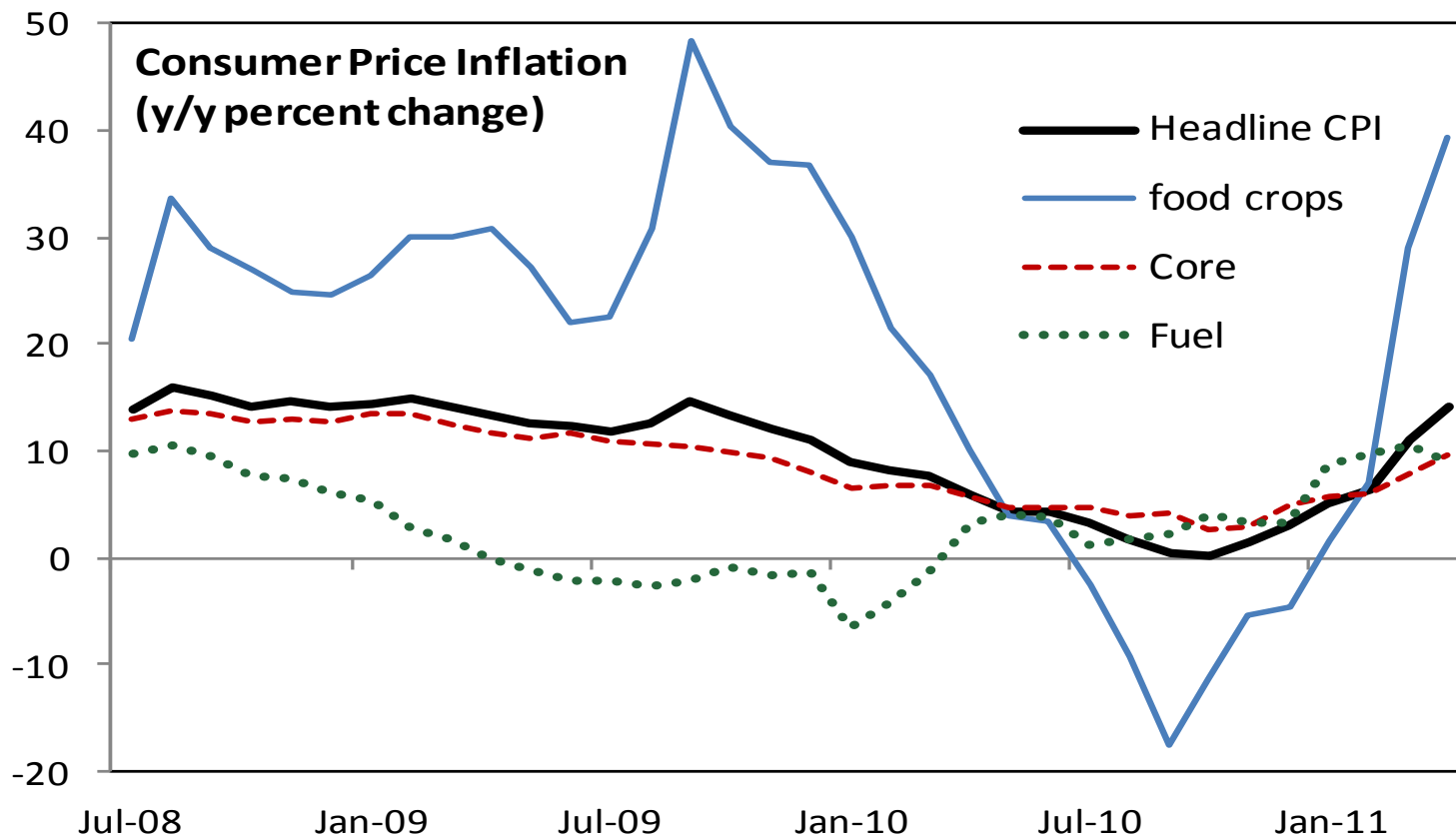
GDP growth dipped during crisis,
but has been recovering



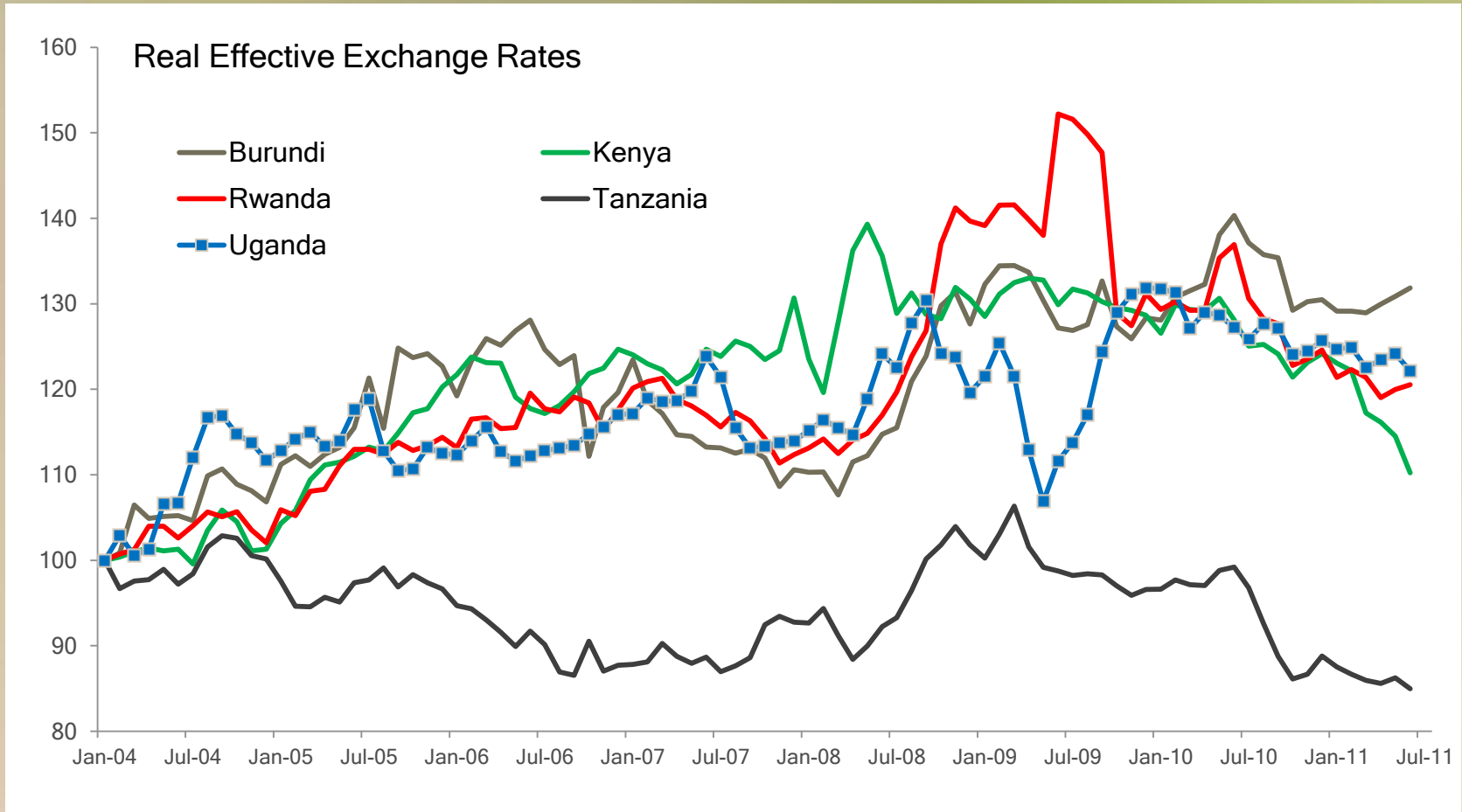
Uganda: Headline inflation has risen throughout the EAC



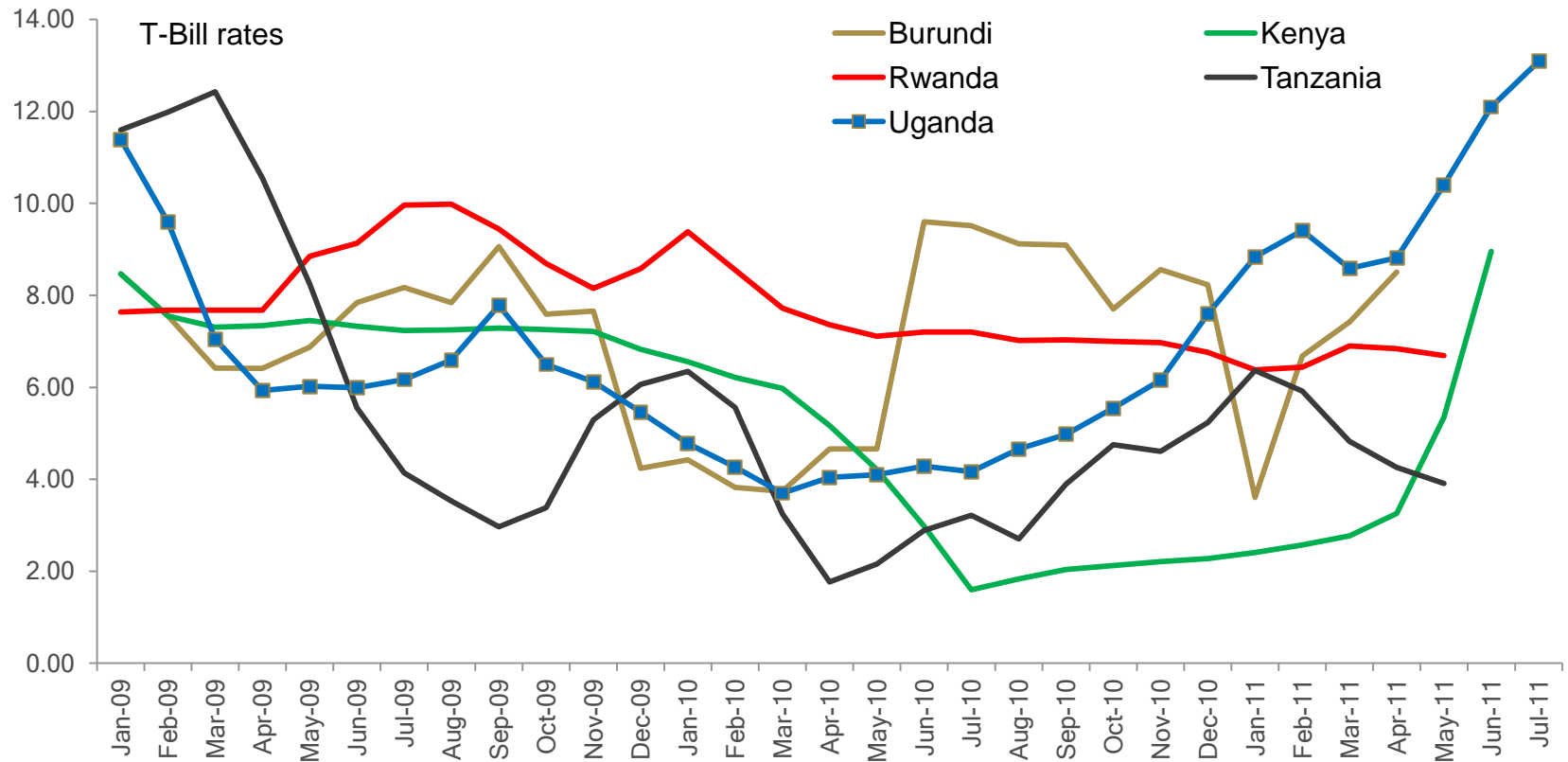
Uganda: Inflation upswing, driven mainly by food



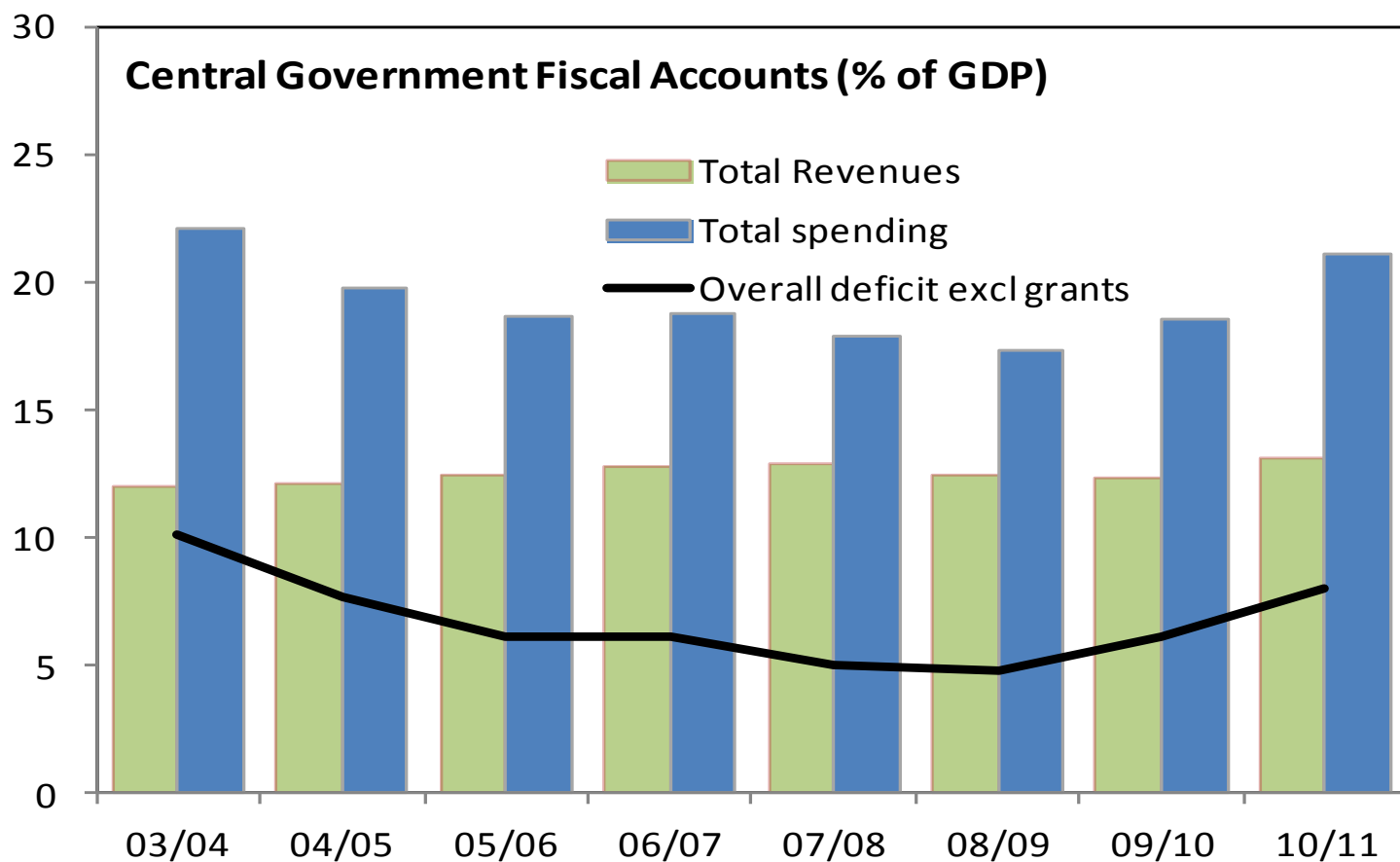
Uganda: Exchange rate pass-through also has an effect on headline inflation, but in real effective terms shilling is stable



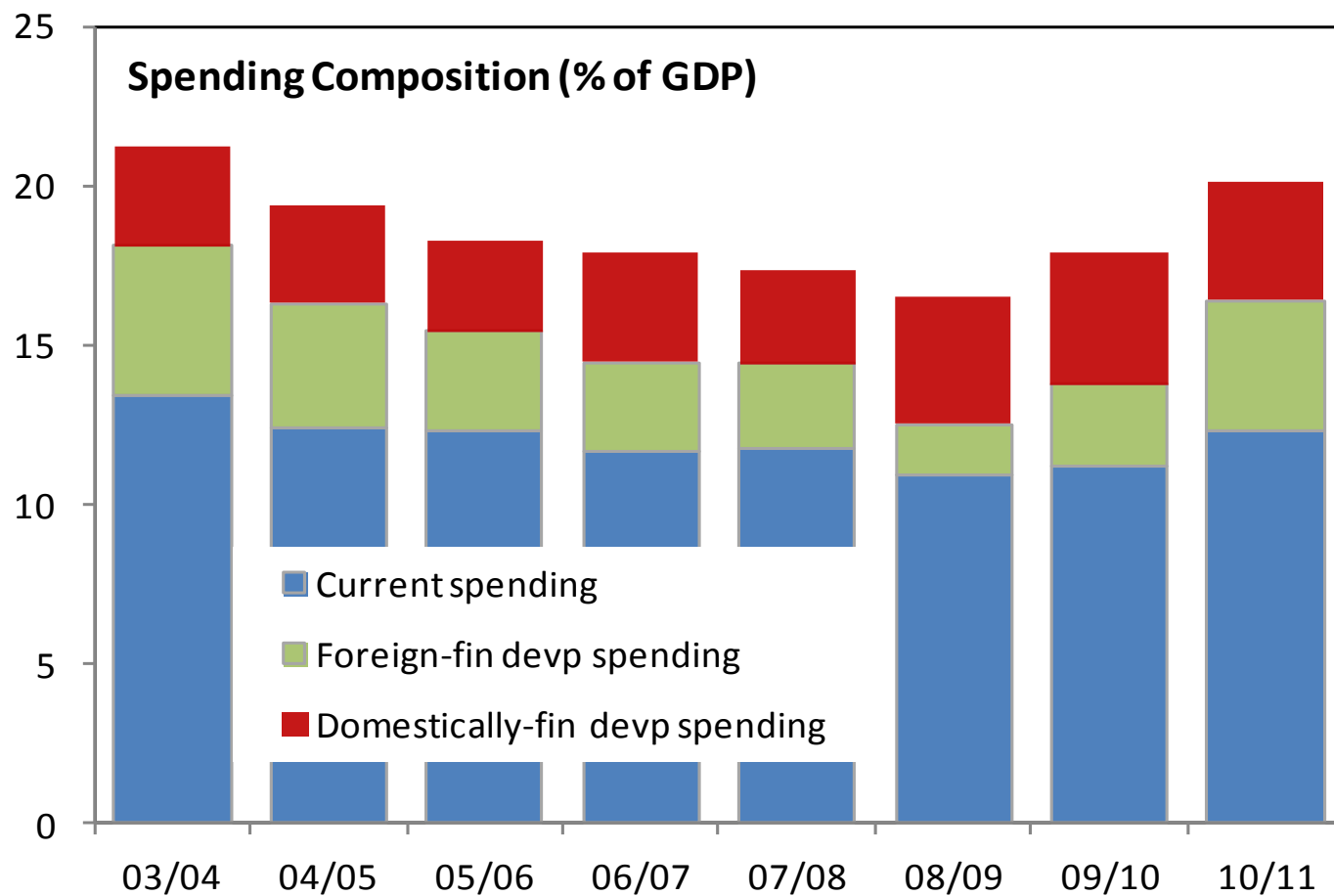
Uganda: Interest rates have risen in reaction to inflation



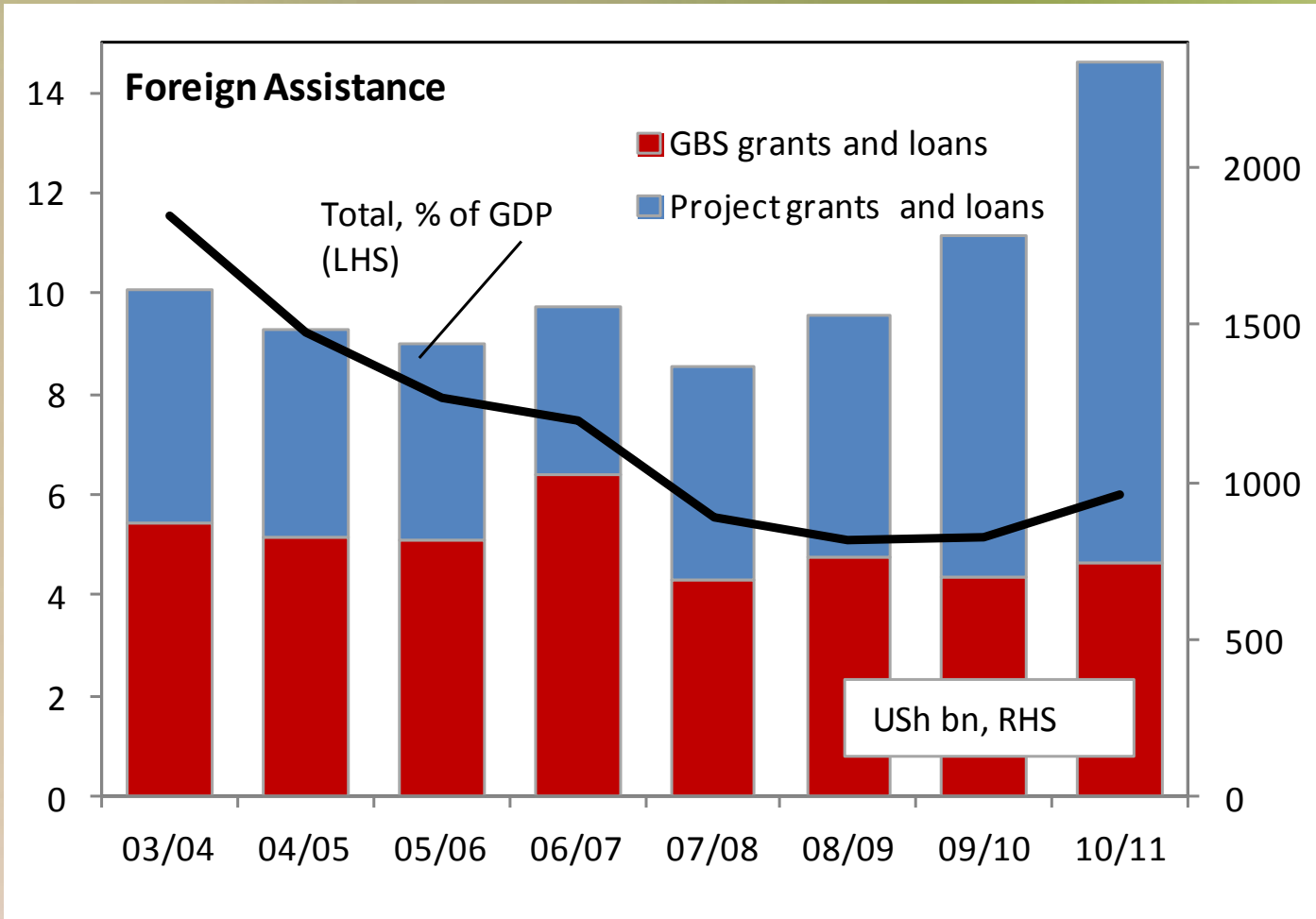
Uganda's Budget: The deficit has widened somewhat



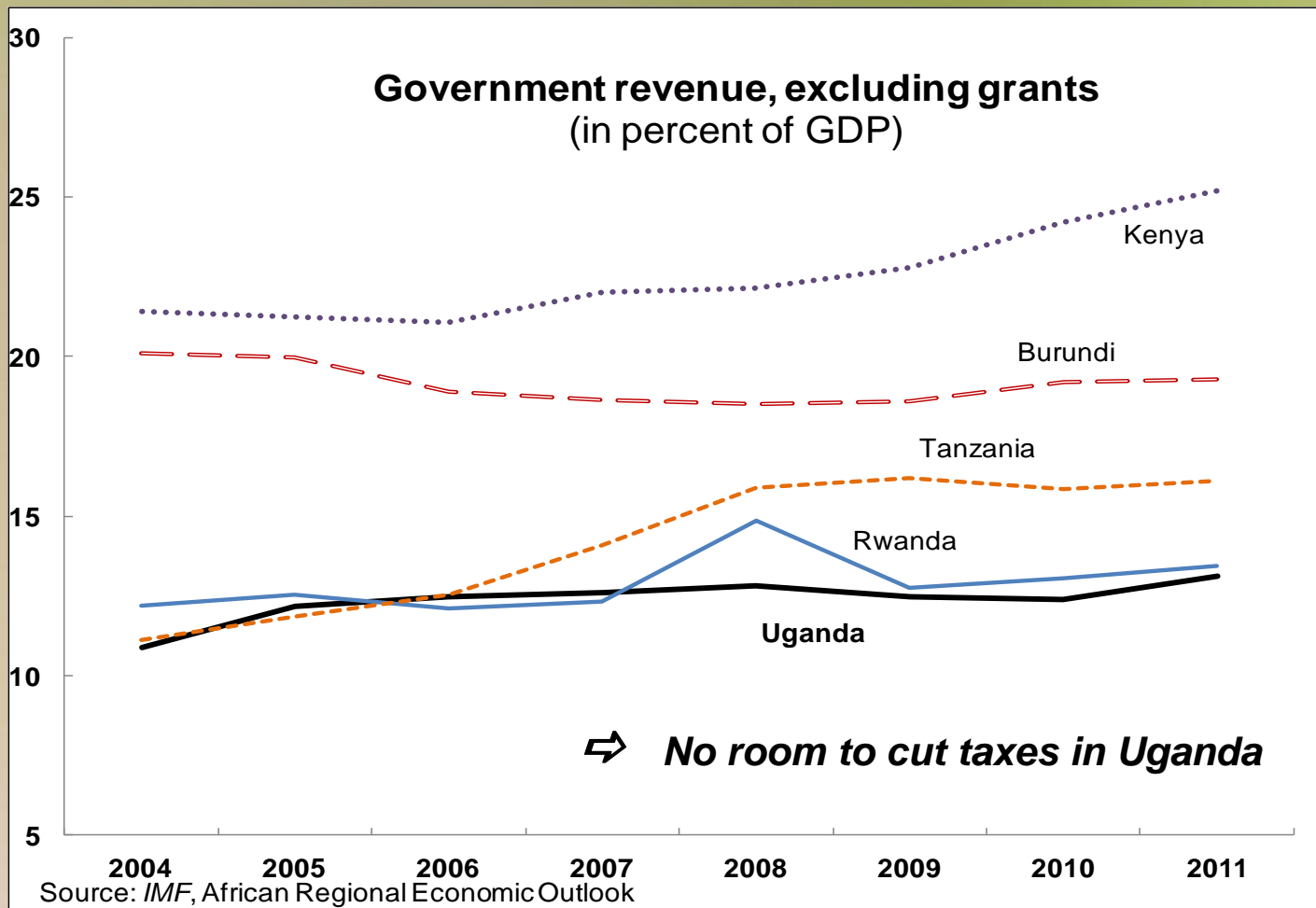
Budget: Partly due to higher current, but also development spending



Budget: Aid has fallen over time as % of GDP (not \$ terms).
There is a shift from budget support 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
 - Can't afford to cut diesel or petrol excises
- Scrap investment trader regime – need to improve VAT refund system
- Issue and enforce transfer pricing guidelines
 - Kenya already has them



But need to do more in FY12/13 (must avoid a tax competition “race to bottom” in the EAC)



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*



Take-away messages for Uganda:

- Global environment is highly uncertain.
- Africa, and Uganda in particular, have done well through the crisis so far - due to good macroeconomic policies.
- Uganda needs to collect more revenue - to provide a buffer for future shocks.
- Tax system has too many exemptions.





Thank you for your attention

