



Economic Policy Research Centre

Fall 2011 African Regional Economic Outlook
Sustaining the Expansion

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Outline—Google Earth Approach

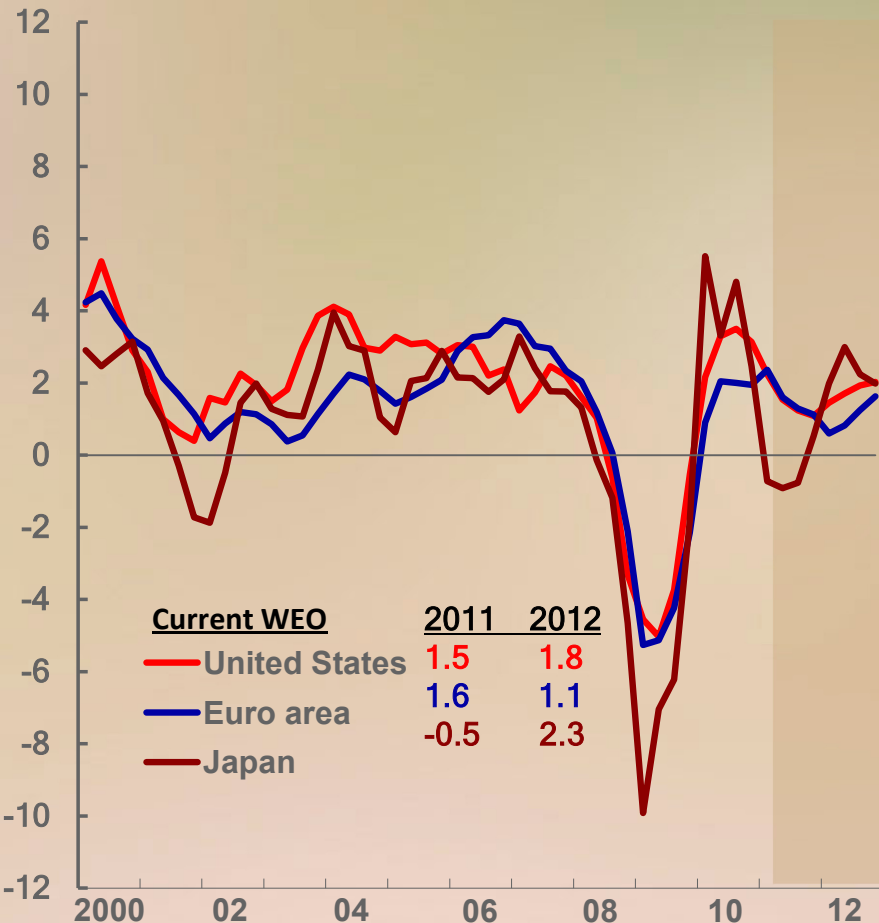
- I. World Economic Outlook
- II. Evolving trade trends in SSA
- III. Outlook for sub-Saharan Africa
- IV. Uganda's Economic Challenges



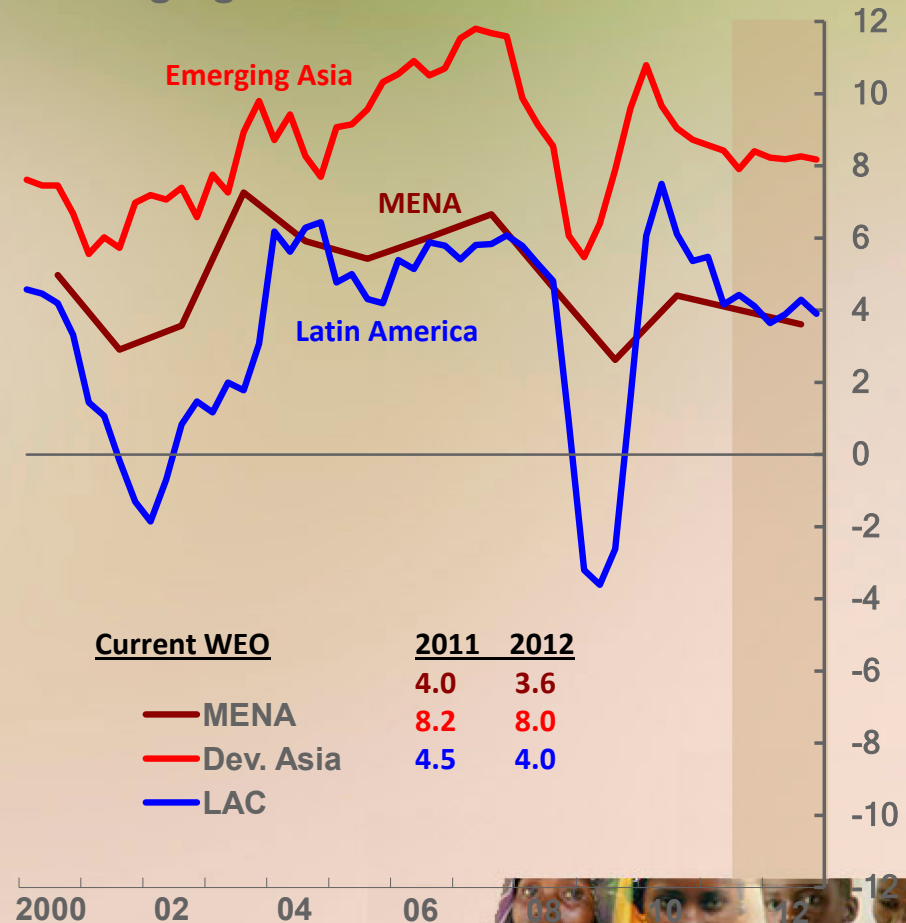
I. World Economic Outlook : 4% global growth; > 6% in emerging markets; < 2% in advanced economies.

Real GDP Growth
(percent change from a year earlier)

Advanced Economies

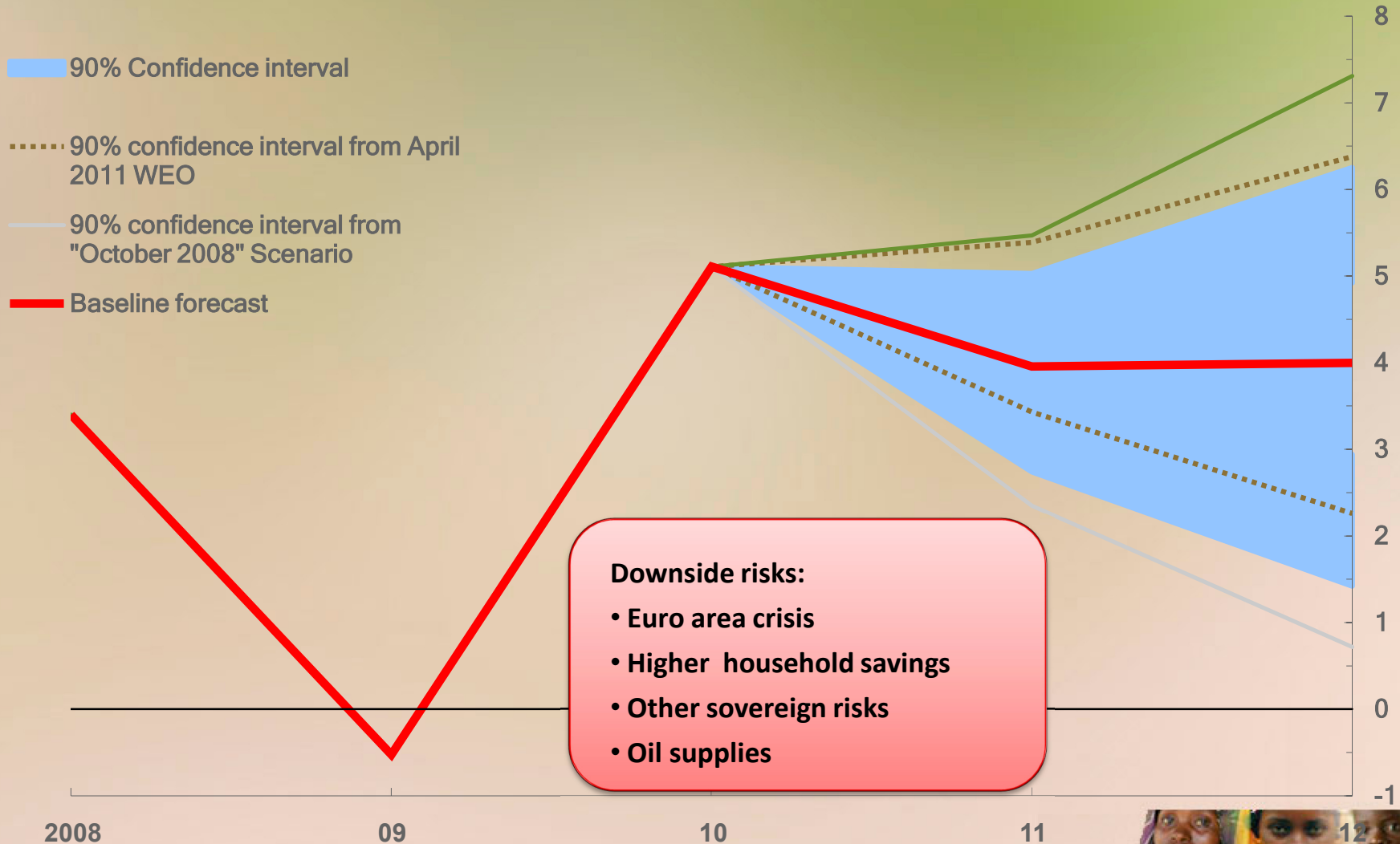


Emerging Economies



Risks to global growth on the downside

World GDP Growth (percent change)



2008

09

10

11

12



How might global volatility affect Africa?

Trade:

- Slower demand in Europe = lower export volumes
- For natural resource producers, lower commodity prices = lower export prices

Private inflows:

- Reduced remittances
- Tighter lending conditions
- Less foreign direct investment

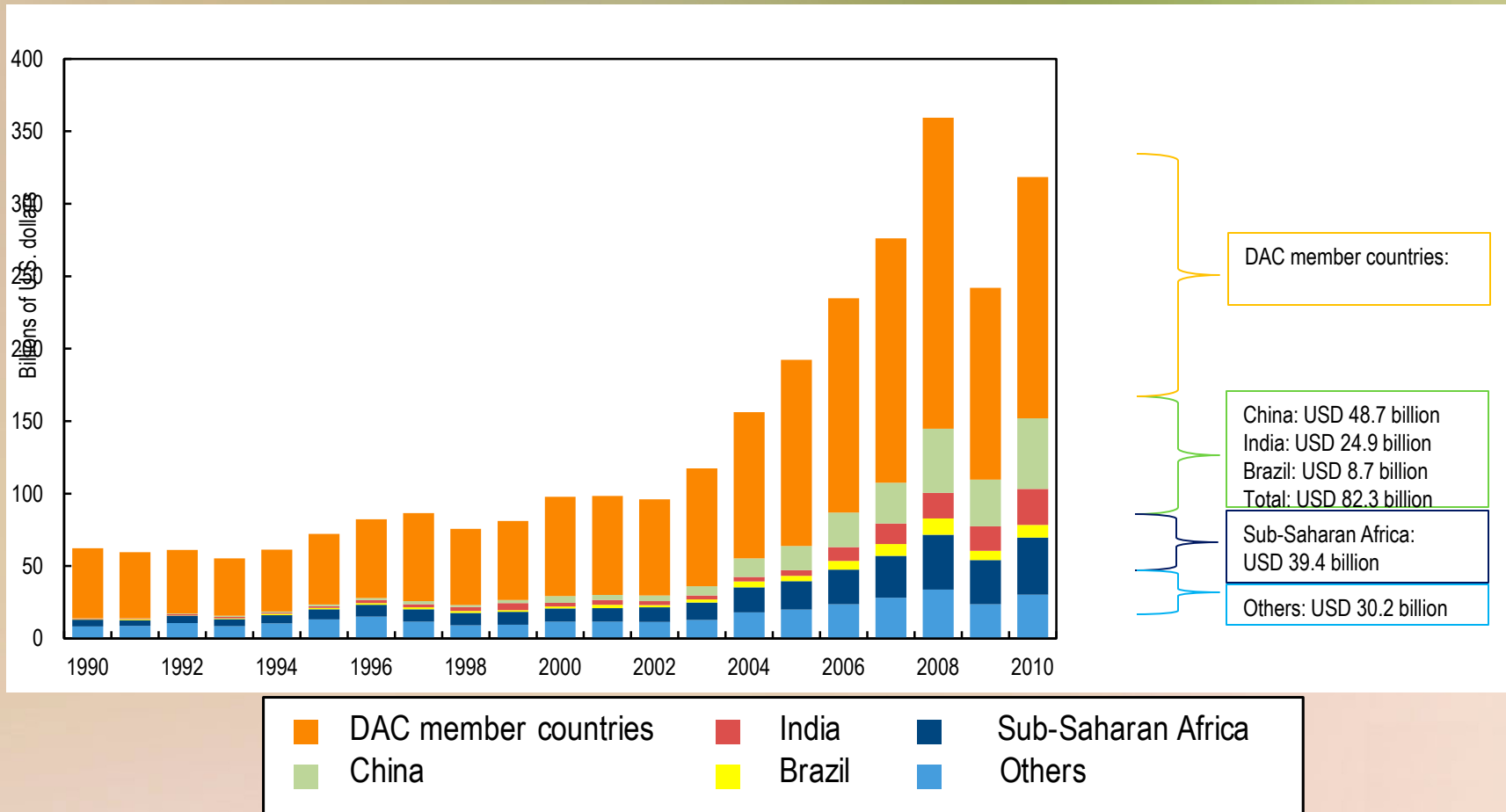
Public inflows:

- Weaker donor budgets = less aid
- More expensive to tap international financial markets



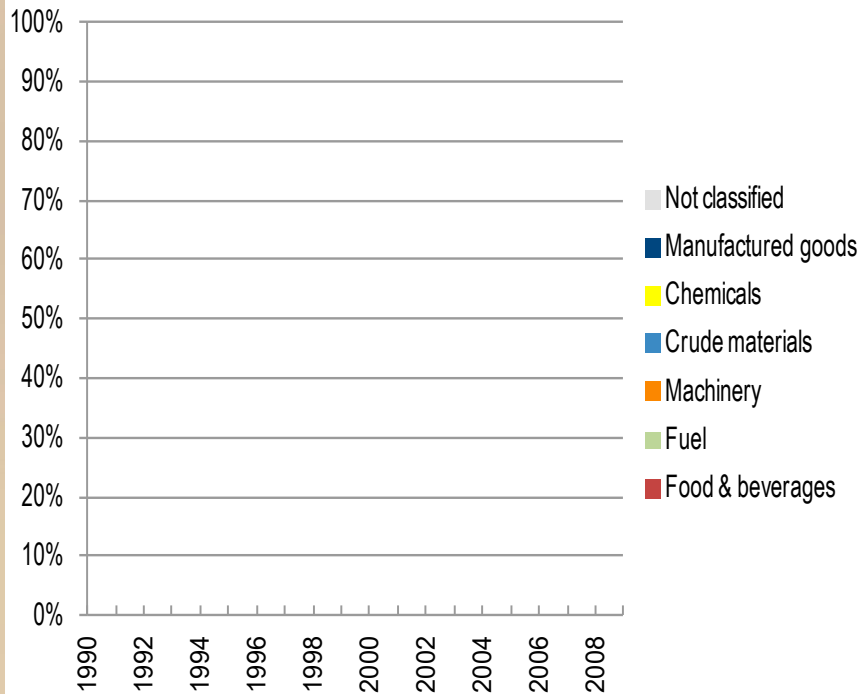
II. Evolving trade trends: sharp increase in trade since 2000 has been mainly to new trading partners

Sub-Saharan Africa: Total Exports and Imports by Partner



Sub-Saharan Africa exports to the BICs heavily concentrated in primary products, mainly oil

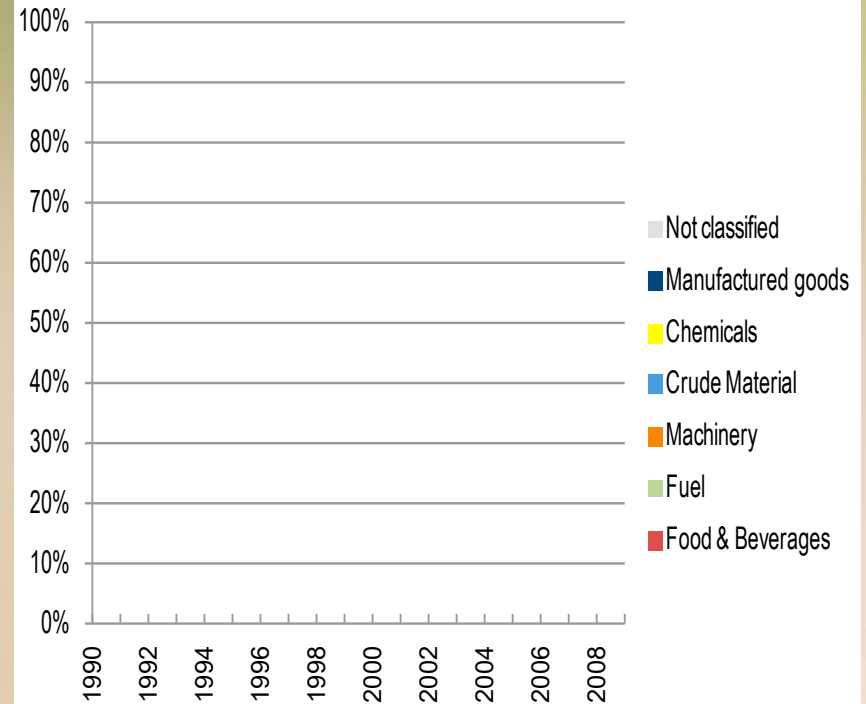
Figure 5a. Sub-Saharan Africa: Exports to BICs by Product Composition¹
(Percent)



Source: United Nations, COMTRADE.

¹Sub-Saharan Africa excludes South Africa.

Figure 5b. Sub-Saharan Africa: Exports to DAC by Product Composition¹
(Percent)



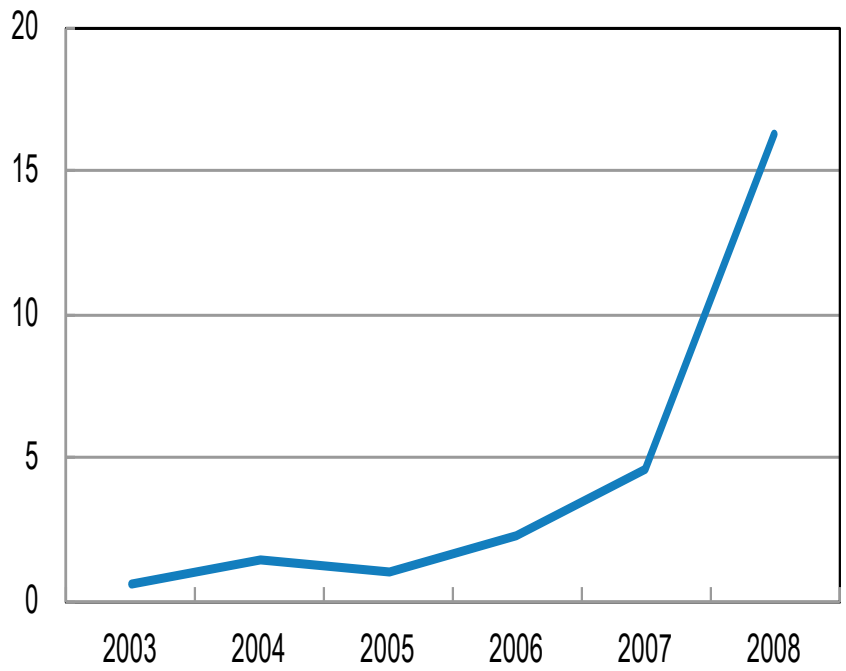
Source: United Nations, COMTRADE.

¹Sub-Saharan Africa excludes South Africa.



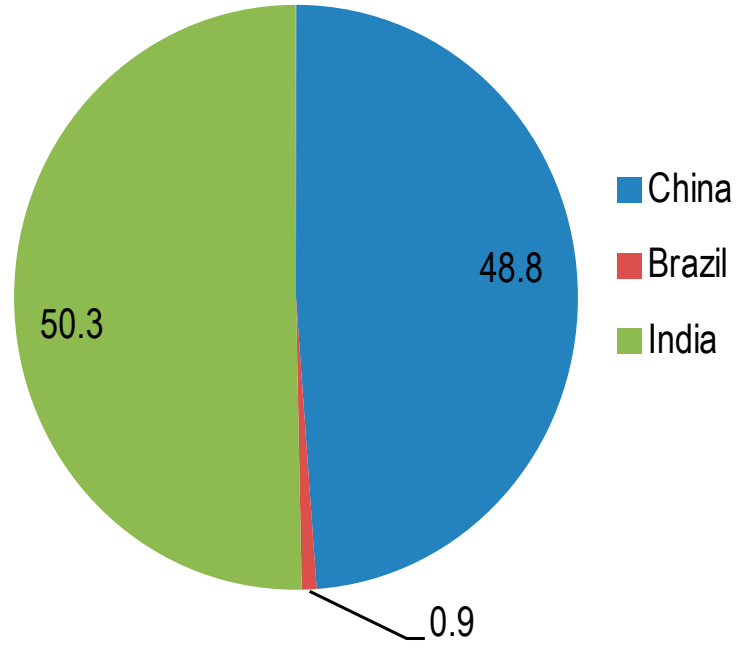
Similar reorientation in sources of capital

Figure 8. Sub-Saharan Africa: Inflows of FDI from China
(Percent of total FDI inflows)



Sources: Comtrade (UNCTAD) and IMF, International Financial Statistics.

Figure 9. Composition of FDI Stocks in SSA from BICs in 2006, in percent



Source: UNCTAD FDI Database.



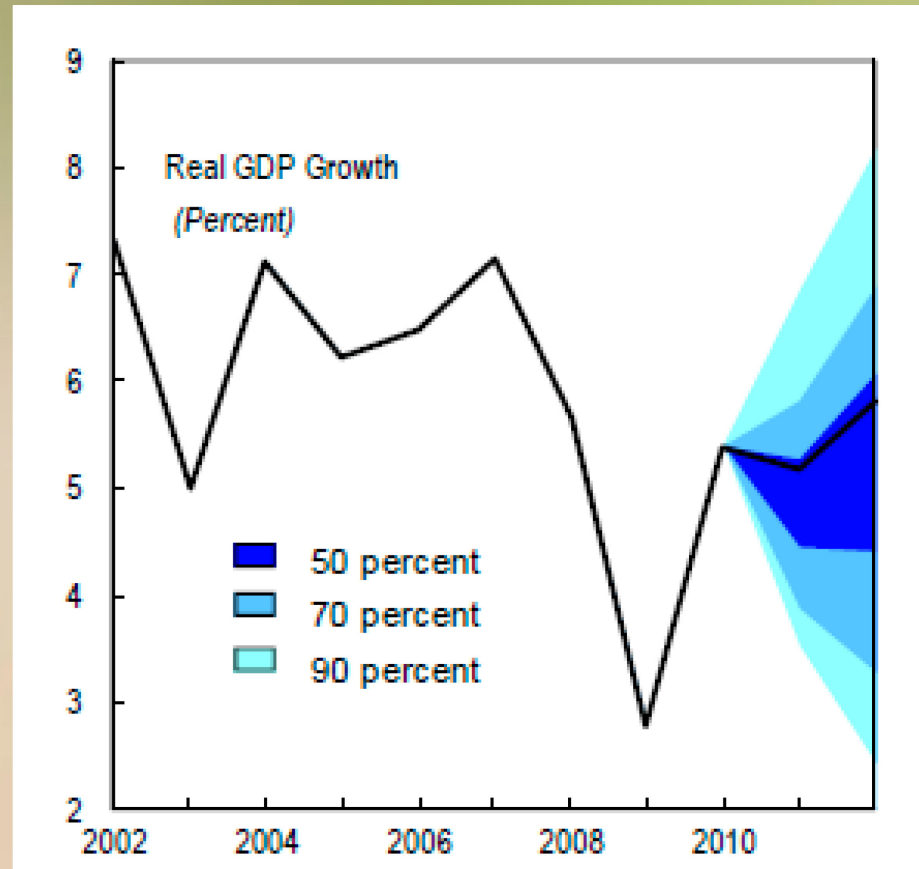
III. Regional Economic Outlook for sub-Saharan Africa

- Growth outlook for Africa is good:

 - ✓ 5¼% in 2011

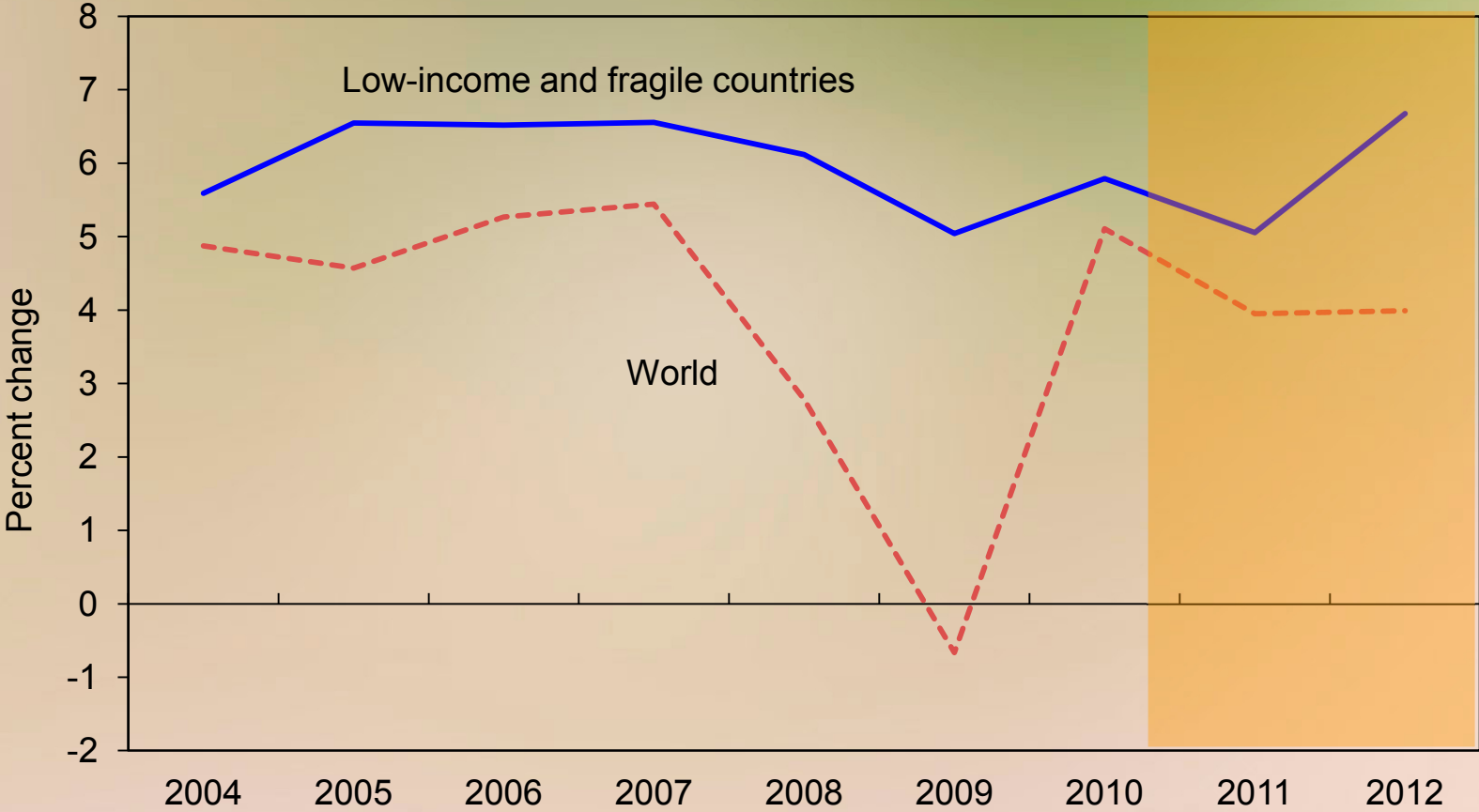
 - ✓ 5¾% in 2012

- Reflecting global outlook, risks are on the downside



African growth forecast assumes global growth of 4%

GDP Growth in Low-Income and Fragile African Countries
(percent change)



Basic forecast is good, but inflation is picking up in many countries

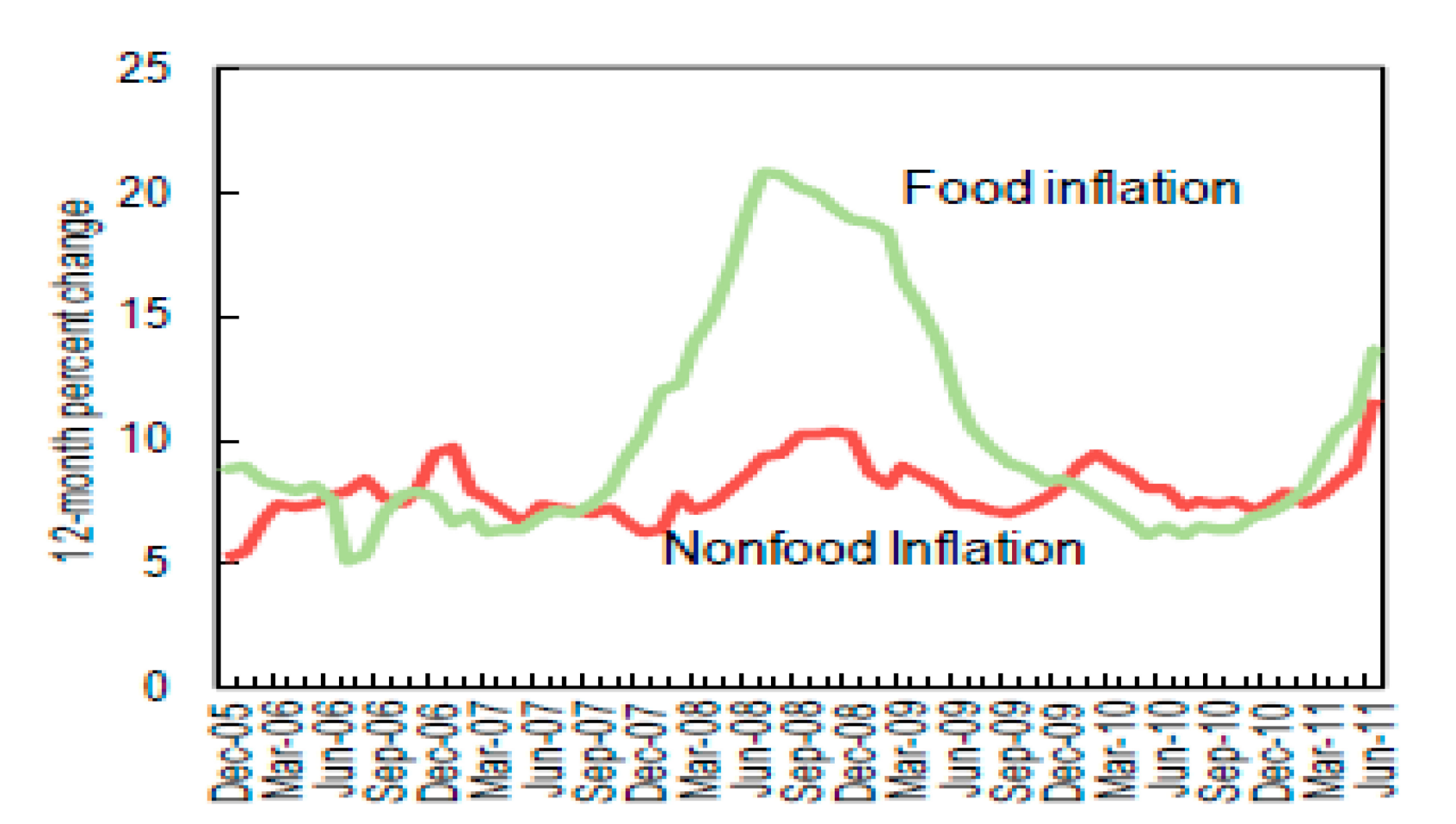
Table 1.1. Sub-Saharan Africa: Macroeconomics Aggregates, 2004-12

	2004-08	2009	2010	2011	2012
		<i>(percentage change)</i>			
Real GDP Growth	6.5	2.7	5.4	5.2	5.8
Inflation, end-of-period	8.6	8.4	6.9	9.4	6.8
		<i>(percent of GDP)</i>			
Fiscal Balance, excl. grants	0.5	-6.7	-5.3	-3.1	-2.1
Current Account Balance	0.9	-2.2	-1.0	0.7	-0.5
		<i>(months of imports)</i>			
Reserves Coverage	4.6	5.1	4.5	5.1	5.6

Source: IMF, World Economic Outlook; IMF, Africa Department database.



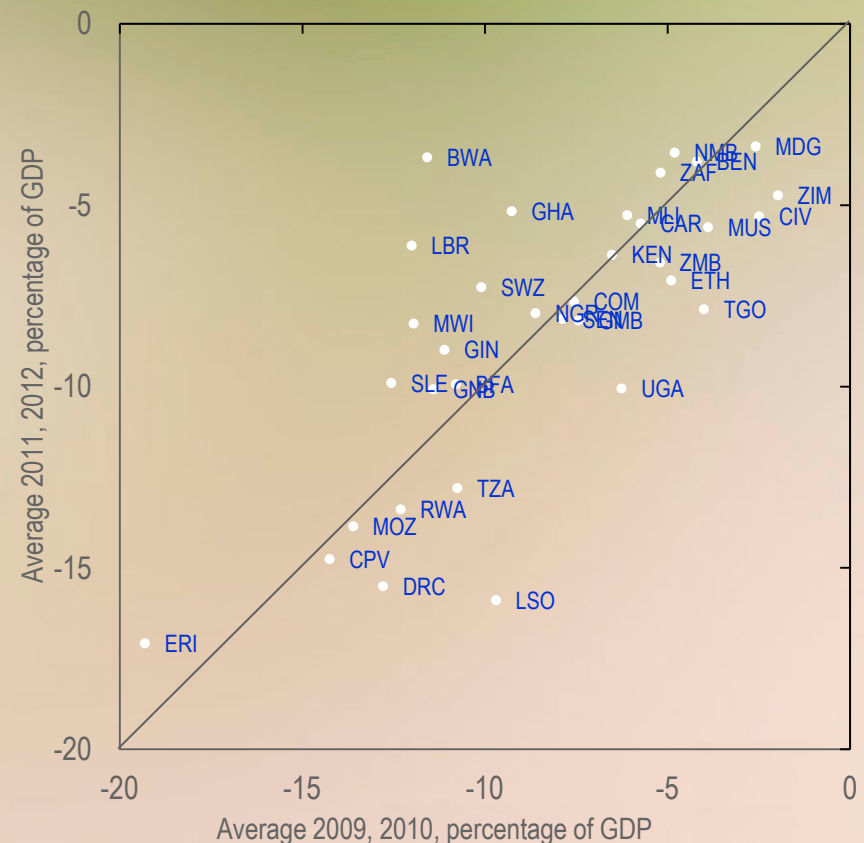
With “second round” inflation effects now evident.



Fiscal deficits look to remain elevated, leaving little space to buffer external shocks

- In 2009-10, as growth slowed, fiscal policy was expansionary in most countries
- Despite the strong growth outlook, deficits in 2011-12 are set to be wider still in many countries

Overall Fiscal Balance (excl. grants)
oil importers, 2009-10 vs. 2011-12



IV. Uganda's economic challenges: context

Uganda has a long track record of strong macro policy management and high growth:

- Sound monetary policy aimed at low inflation
- Flexible exchange rate regime
- Modest budget deficits
- Careful debt management



High growth advantages: Uganda fares well in inclusive growth case studies

Macroeconomic, Poverty, and Consumption Aggregates in Sample Countries

(Annual percentage change, except where stated)

	Period	Growth per Capita	Poverty Headcount		Gini Coefficient			Per Capita Consumption		
			Latest estimate	Initial estimate	Latest estimate	NIPA data		Survey data		
						All households	Poorest quartile	Ratio of poorest quartile to average		
Cameroon	2001–07	0.57	9.6	-3.9	0.4	0.39	1.0	0.82	1.0	1.24
Zambia	1998–2004	1.16	64.3	1.5	0.53	0.51	0.5	-3.43	-1.9	
Ghana	1998–2005	2.33	30.0	-1.3	0.41	0.43	3.6	3.66	2.6	0.71
Tanzania	2000–07	4.38	67.9	-3.0	0.35	0.38	3.7	6.73	3.9	0.58
Uganda	2002–09	4.45	28.7	-4.1	0.46	0.44	3.6	3.40	4.7	1.37
Mozambique ¹	2003–09	5.54	60.0	-2.5	0.47	0.46	7.2	3.50	2.9	0.82
								0.69	-1.3	
<i>Memo items:</i>										
Bangladesh ²	1992–2000	3.00	57.8	-1.1	0.28	0.33	0.8	1.80	1.0	0.56
Cambodia ³	1994–2004	5.70	40.2	-0.8	0.35	0.42	5.8	2.80	0.80	0.29
Vietnam ³	1993–2002	5.90	40.1	-2.6	0.34	0.38	4.2	5.50	4.0	0.73

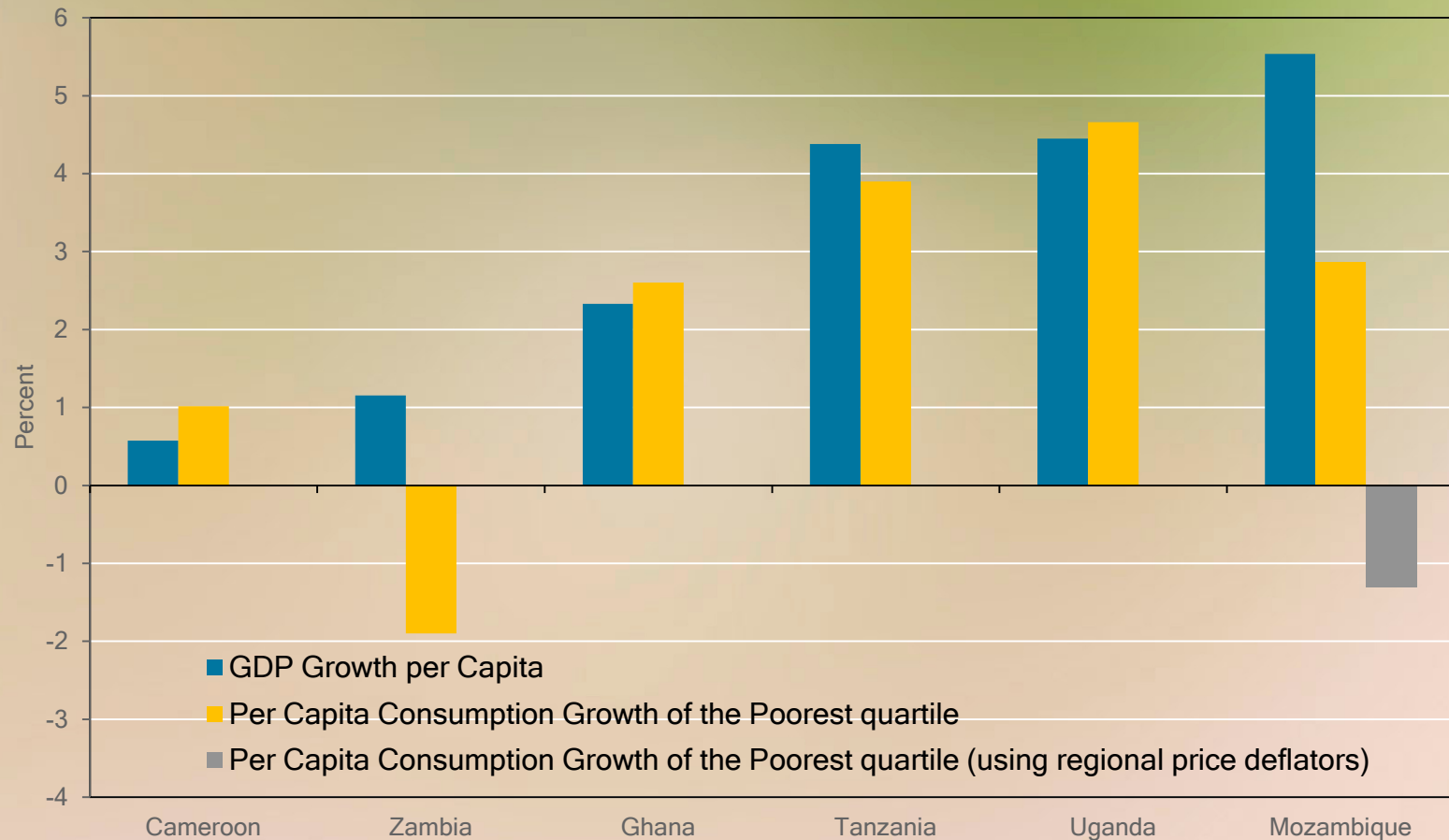
¹ For per capita consumption growth rates, upper line is deflated by aggregate CPI, lower line is deflated by regional CPIs

² Estimate based on Bangladesh growth incidence curve.

³ For Cambodia and Vietnam, the poorest quintile replaces the poorest quartile.



Per Capita GDP Growth and Consumption Growth of the Poorest Quartile

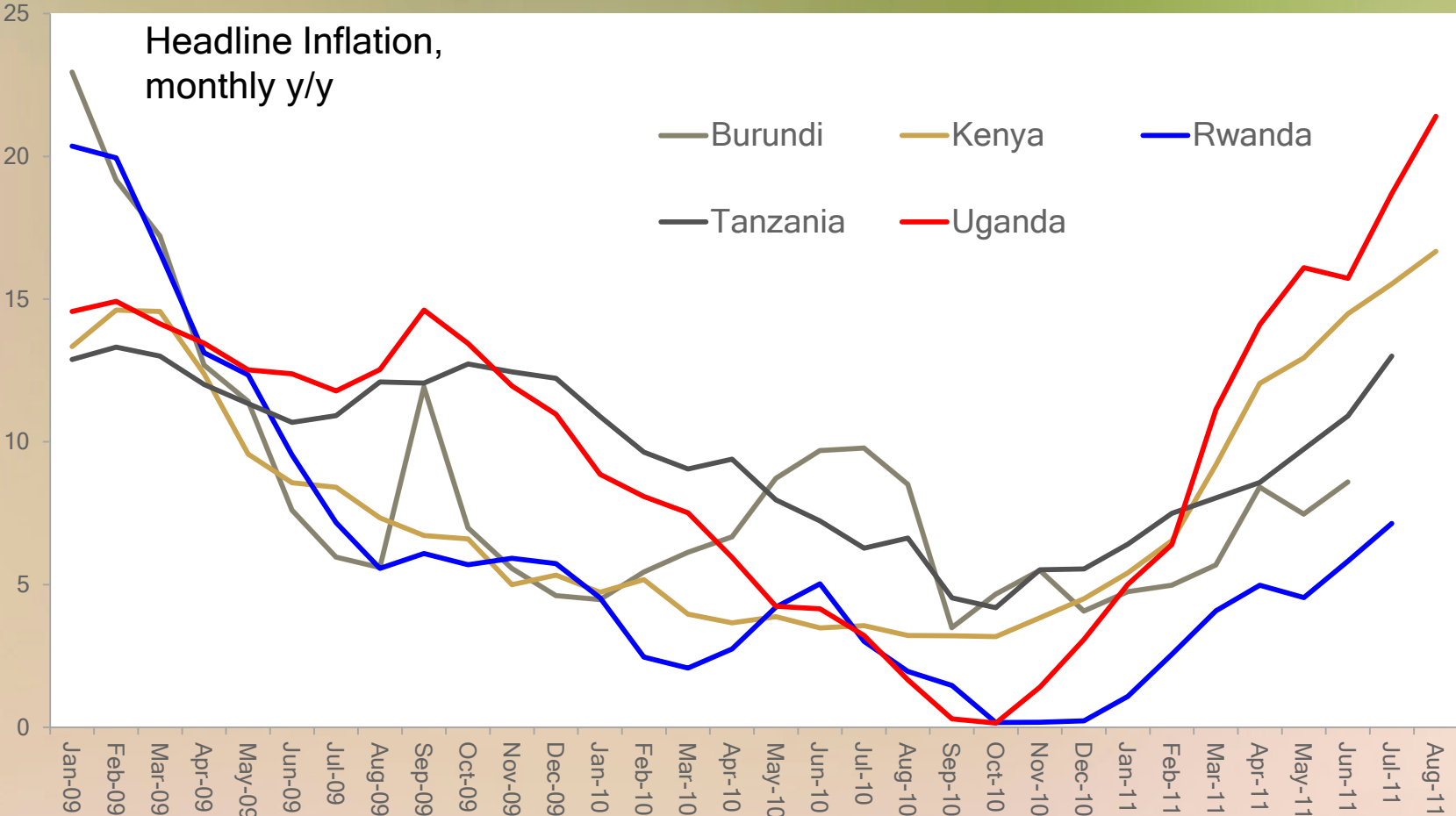


Policy environment has become more challenging:

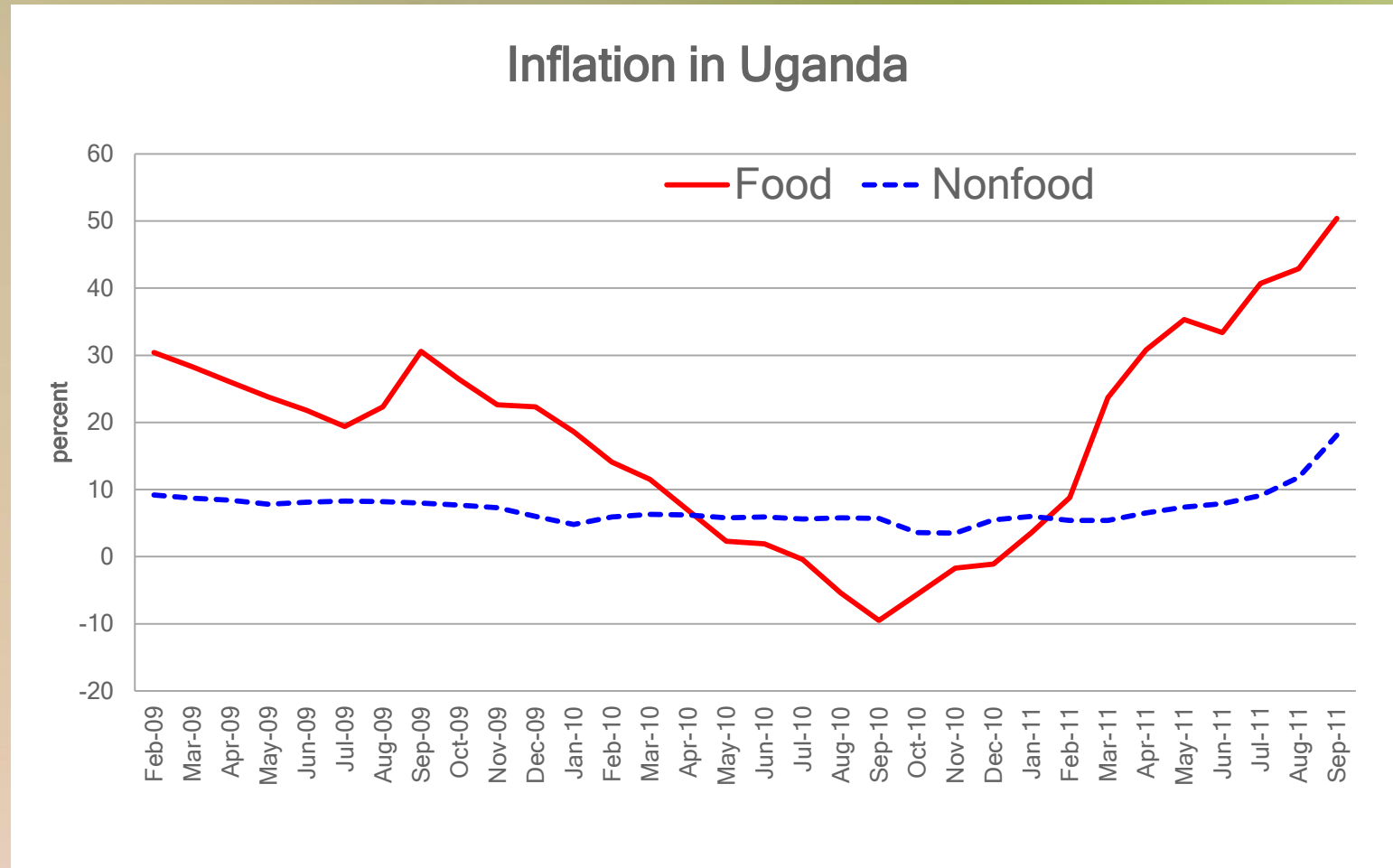
- Global volatility a concern, contributing to exchange rate movements.
- Regional food supply shortages increasing domestic prices.
- High inflation and depreciating exchange rate self-reinforcing.
- Oil several years off and donors scaling back budget support.



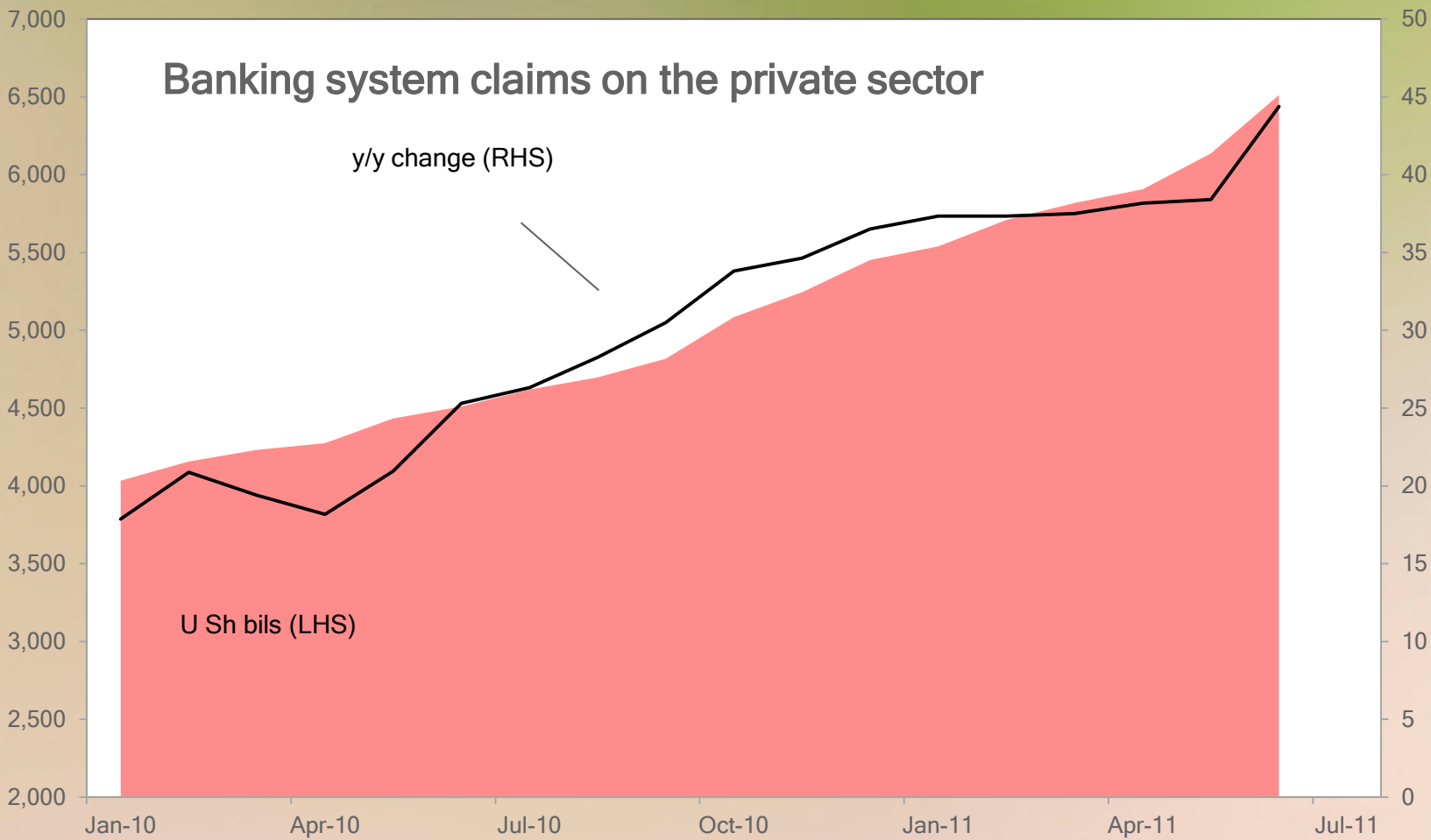
Inflation is up throughout East Africa



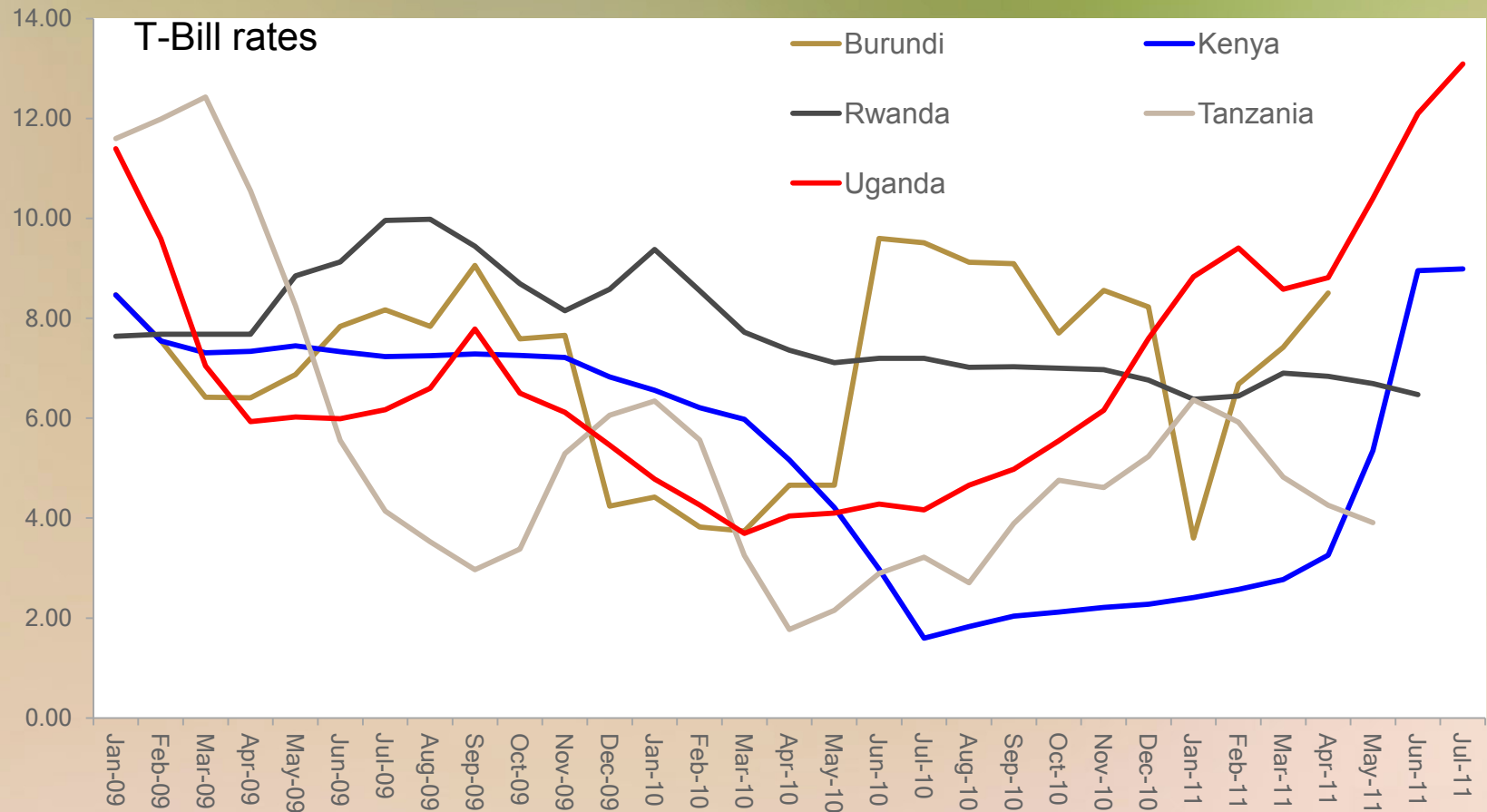
Food price shocks have been main factor in Uganda, but now spilling over to other prices



While indicators suggest private demand remains robust



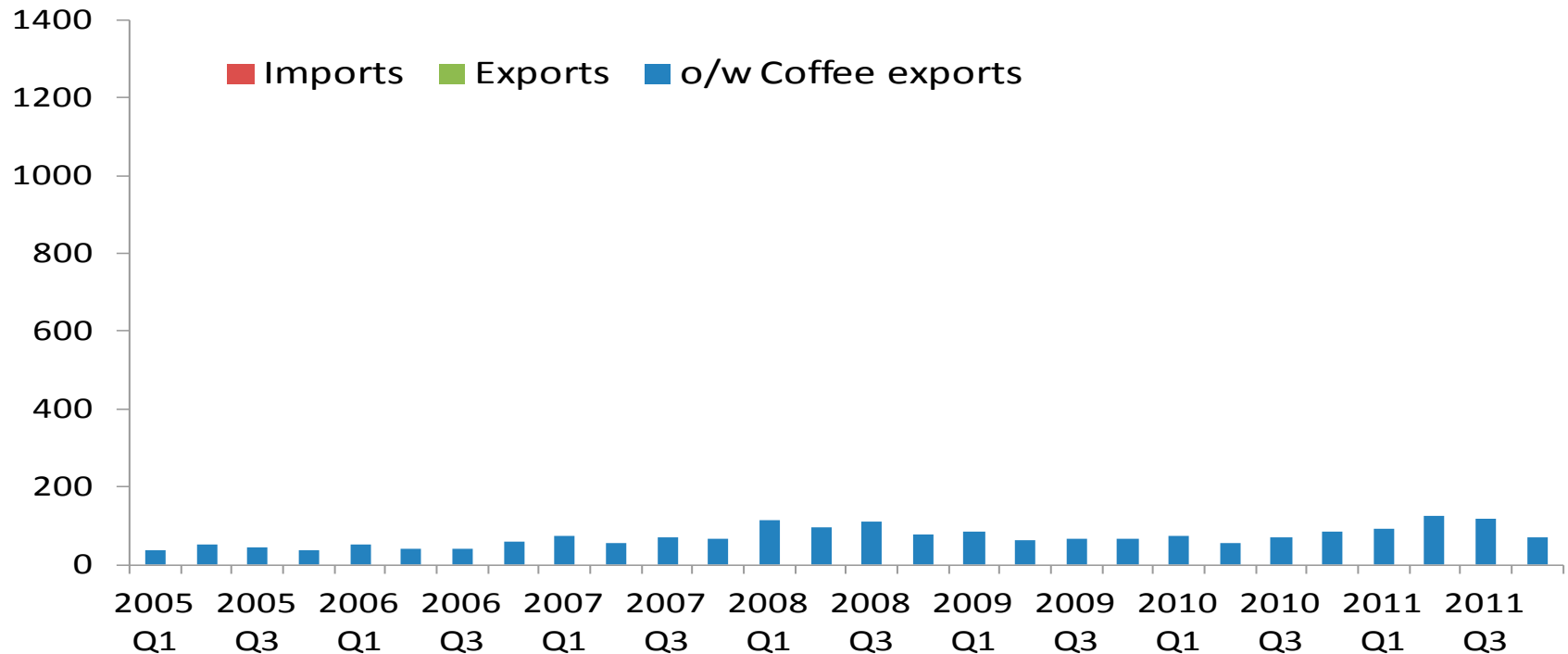
Interest rates have been rising, as needed to stem inflation and bolster the exchange rate.



The trade deficit has continued to widen due to strong import demand

Uganda: Total Exports and Imports

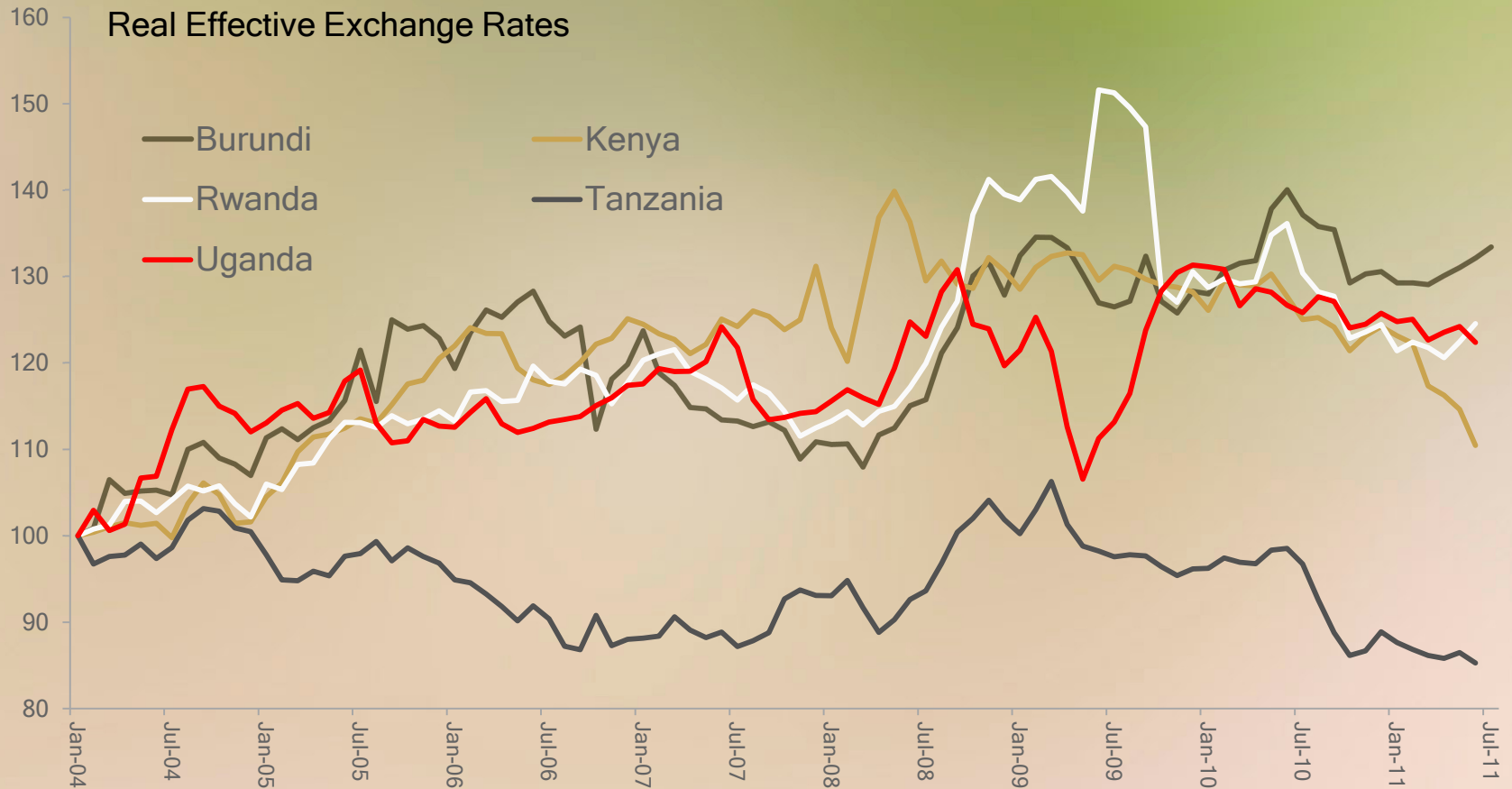
In USD millions



Source: Bank of Uganda



Exchange rate has moved but *real effective exchange rate* is stable over last 18 months



International rating remains favorable

Country	LT Sovereign Rating	Outlook	Date
Kenya	B+	Stable	August 2011
Rwanda	B	Stable	August 2011
Uganda	B	Stable	October 2011
<i>Comparison:</i>			
Ghana	B+	Stable	Sept. 2011
Mozambique	B	Stable	August 2011
<i>Broader comparison:</i>			
<i>B+ countries</i>	Angola, Cape Verde, Georgia, Vietnam		
<i>B countries</i>	Benin, Lebanon, Mongolia, Ukraine		

Source: Fitch Ratings (www.fitchratings.com)



Way Forward: restore low inflation

- Higher interest rates will have an impact on lending, and thereby cause growth to slow somewhat
 - ▶ Inevitable price of bringing inflation under control
- Need to maintain investor confidence
 - ▶ International reserves of BoU are down, but not that much
- Fiscal policy is tight and needs to remain that way
 - ▶ Supportive of BoU disinflation efforts
 - ▶ Focus on longer run issues (including nonoil revenue)



Need to maintain focus on medium-term strategic priorities in the Budget

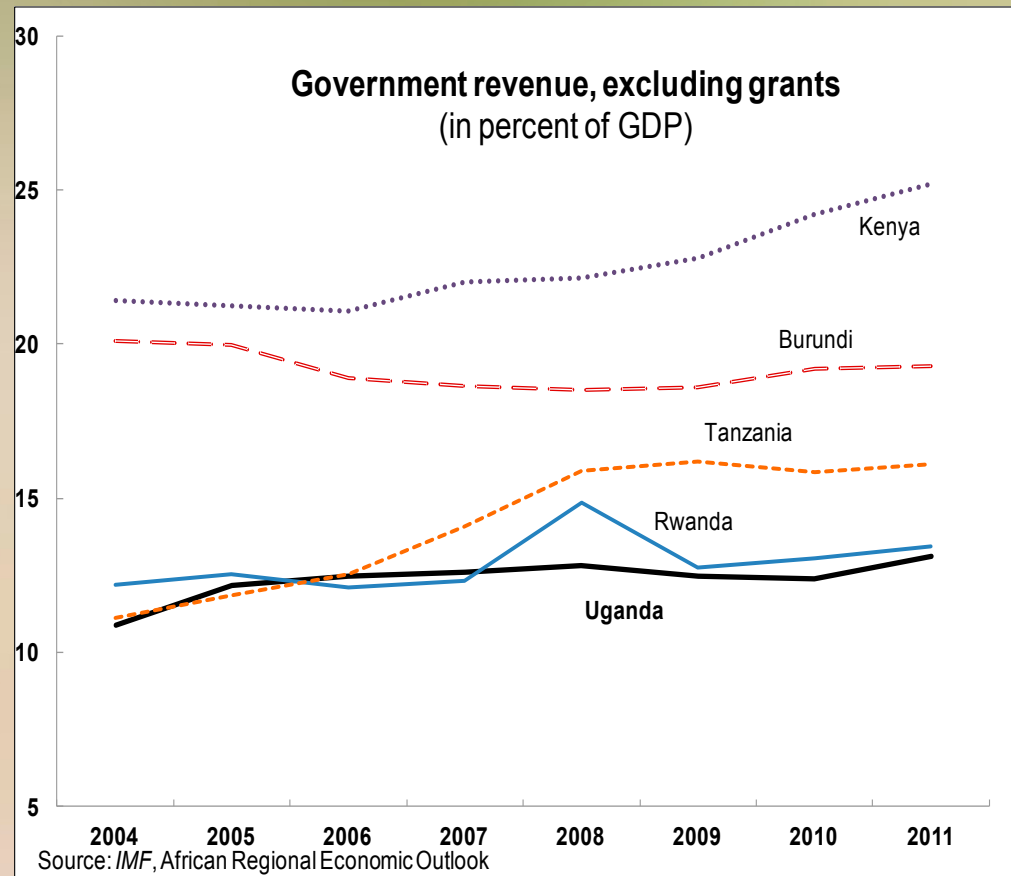
- Develop the agriculture sector
 - Food security reasons
 - Need to build storage capacity to avoid boom-bust cycle
 - Also important for balance of payments
 - Resist temptation to limit food exports - Uganda wants to be “breadbasket” of East Africa
- Need to *implement* ambitious infrastructure plans to facilitate export-led growth
 - Roads and rail transport development
 - This is investment in agriculture too
 - More power generation (Karuma dam)



But revenue mobilization is critical if government's strategy is to be achieved

- Important to build nonoil revenue base before oil revenues come on stream
- Resist temptation to cut fuel taxes (you can't afford it)
- Examine tax exemptions on "value for money" grounds

Uganda's revenue performance is the lowest in the region



Take away messages

1. The global environment is very uncertain

- Growth is coming from emerging market countries

2. Africa will be fine, if global growth holds up

- Need to preserve room for maneuver
 - Safeguard central bank reserves; keep fiscal policy tight

3. Uganda faces some challenges

- Need to bring inflation down
 - High interest rates mean growth will slow a bit - unavoidable
- Medium-term strategy is right: build infrastructure
- But need to raise revenue to build infrastructure

