PwC Post-Budget Breakfast

Budget 2012/13: Uganda's Macroeconomic Outlook in Global Perspective

June 15, 2012

Thomas Richardson

IMF Senior Resident Representative in Uganda

Outline

I. Global economic outlook and implications for Africa

II. What does this mean for Uganda?

III. Three challenges Uganda must face in FY 2012/13 and over medium term

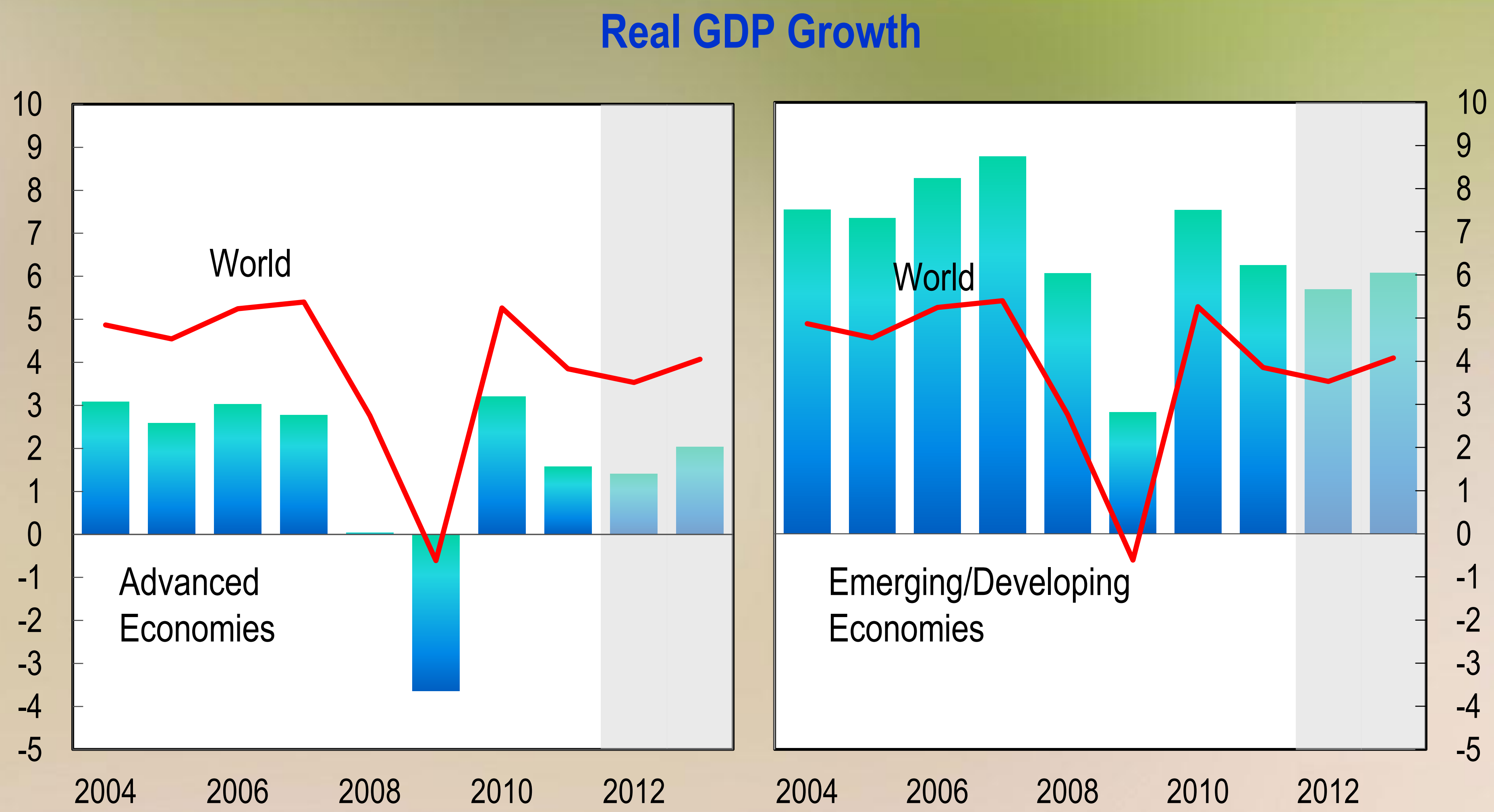
IMF GLOBAL FORECAST AND RISKS

Outlook slowly improving, but it remains fragile

Key assumptions underlying the baseline:

1. Policymakers take decisive actions to address the crisis in the euro area
2. Avoid “bad” deleveraging—limited impact on credit.
3. Limited financial and trade spillovers.

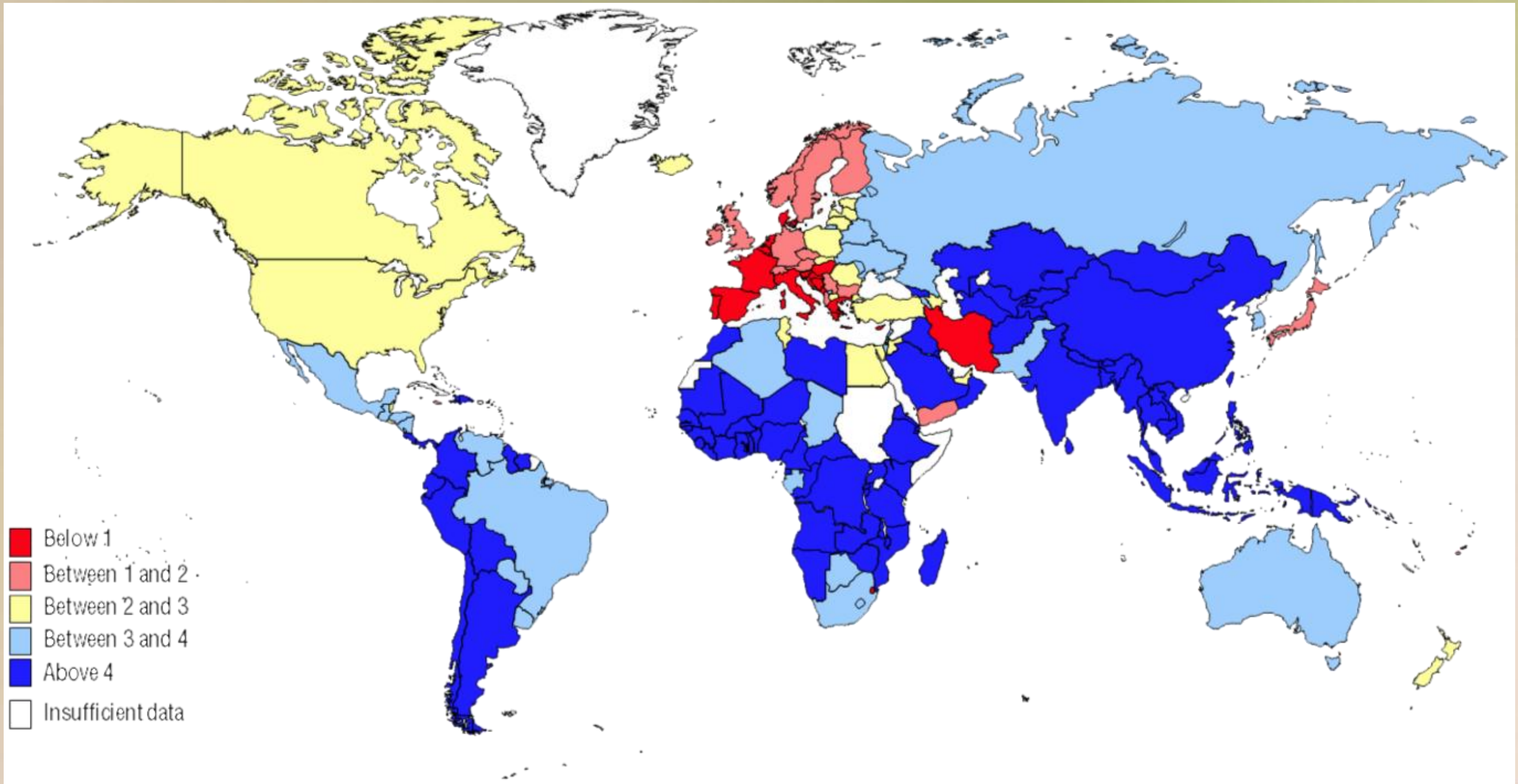
Global economy: sluggish growth, unevenly distributed



International Monetary Fund, June 2012

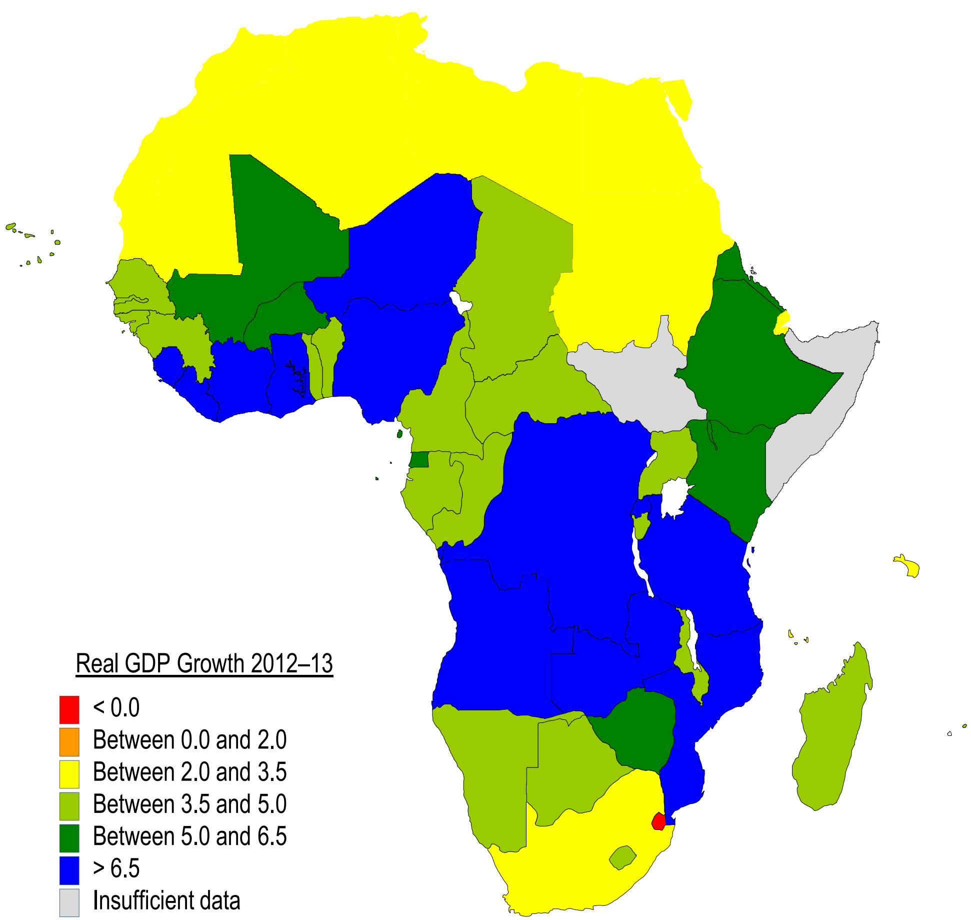
Sub-Saharan Africa will remain among the fastest-growing regions in the world

Output Growth, 2012-13



International Monetary Fund, June 2012

Oil exporters and low income countries are expected to see healthy growth in 2012-13



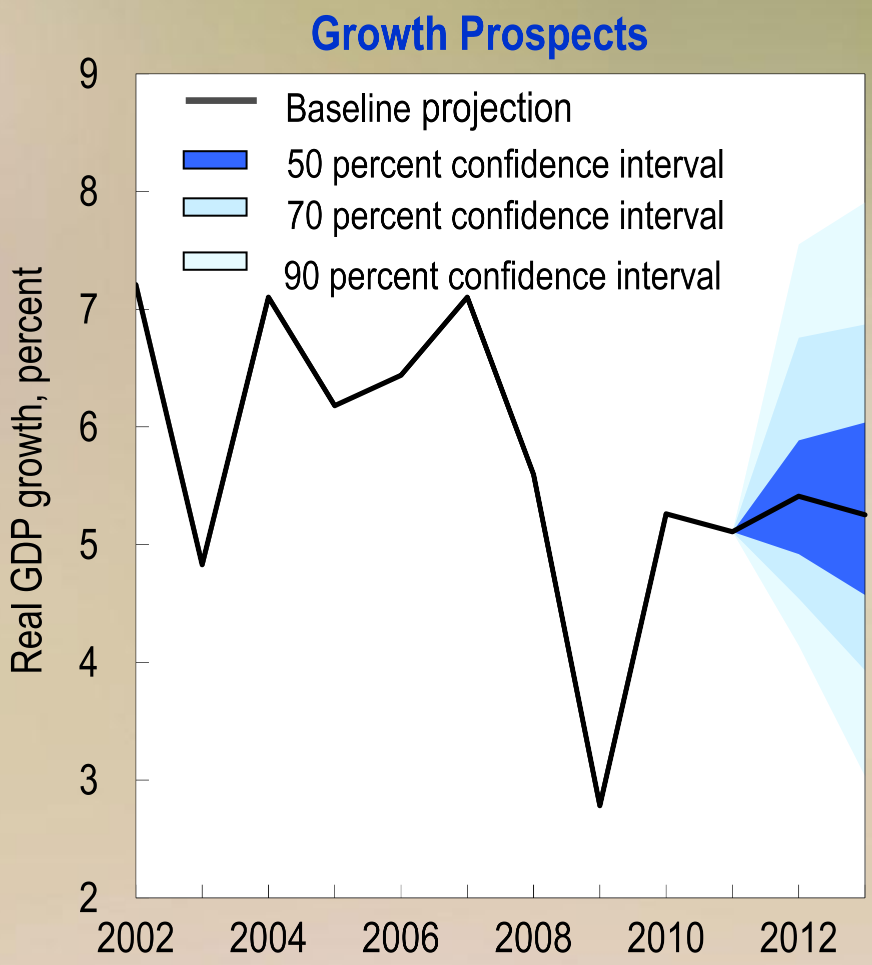
Note: Data for North African countries represent the regional weighted average excluding Libya due to erratic data.

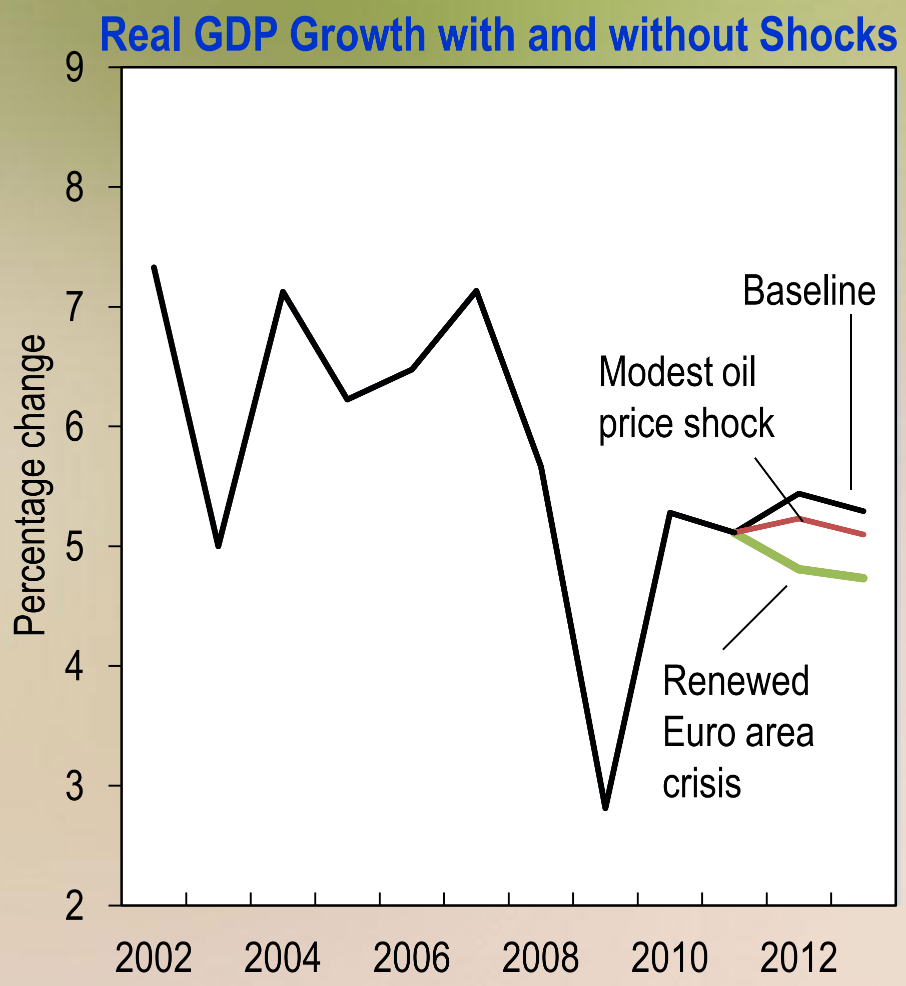
Africa: Real GDP Growth

	2011	2012	2013
	(percentage change)		
Africa	3.8	4.1	4.5
North Africa	1.6	1.7	3.2
Sub-Saharan Africa	5.1	5.4	5.3
Oil exporting countries	6.0	7.1	6.1
Middle-income countries	4.3	3.5	4.1
Low-income countries[1]	5.1	6.0	5.9

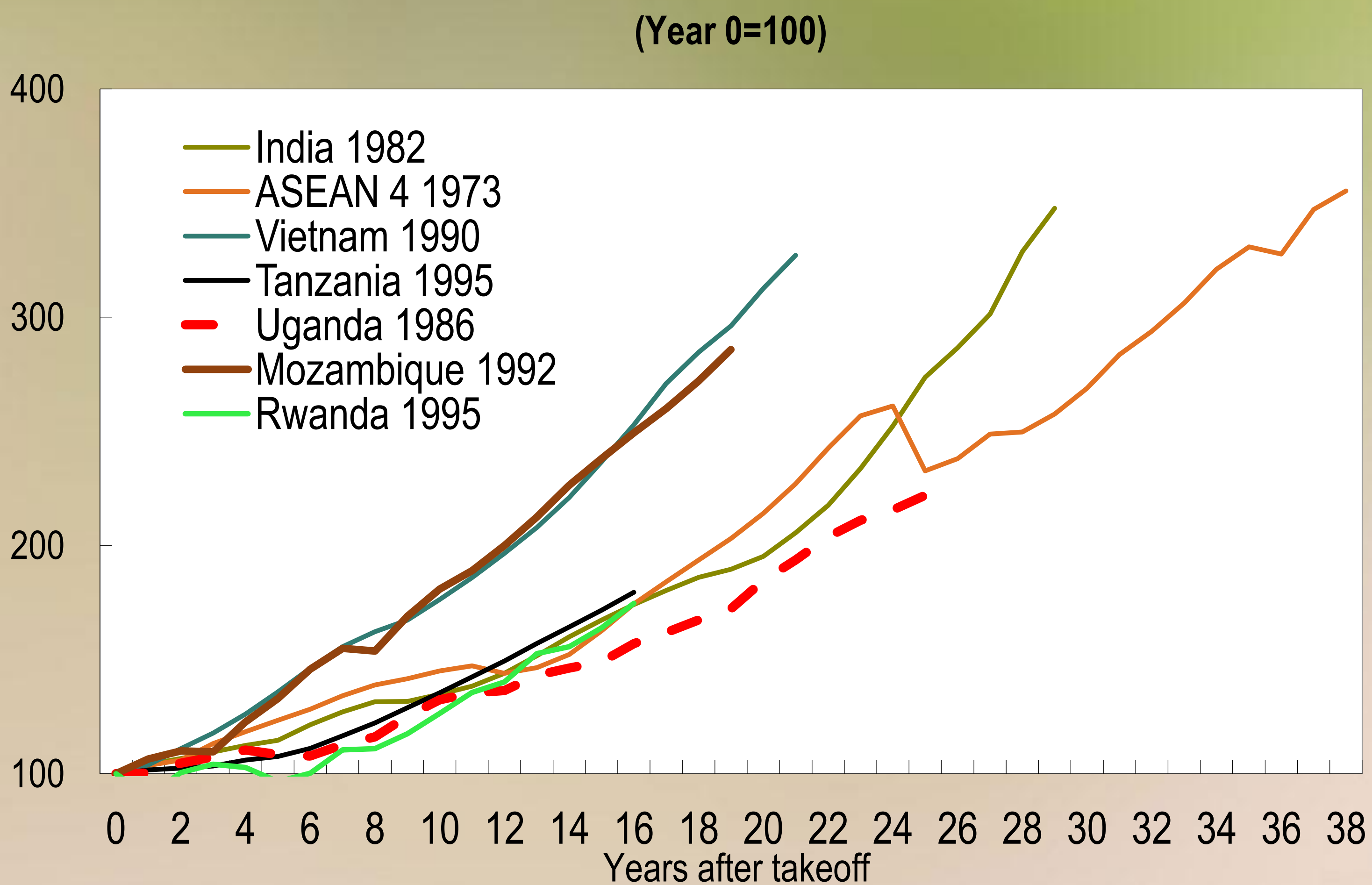
[1] Including all fragile oil-importing countries.

But shocks—higher oil prices or a renewed Euro area crisis—would affect growth





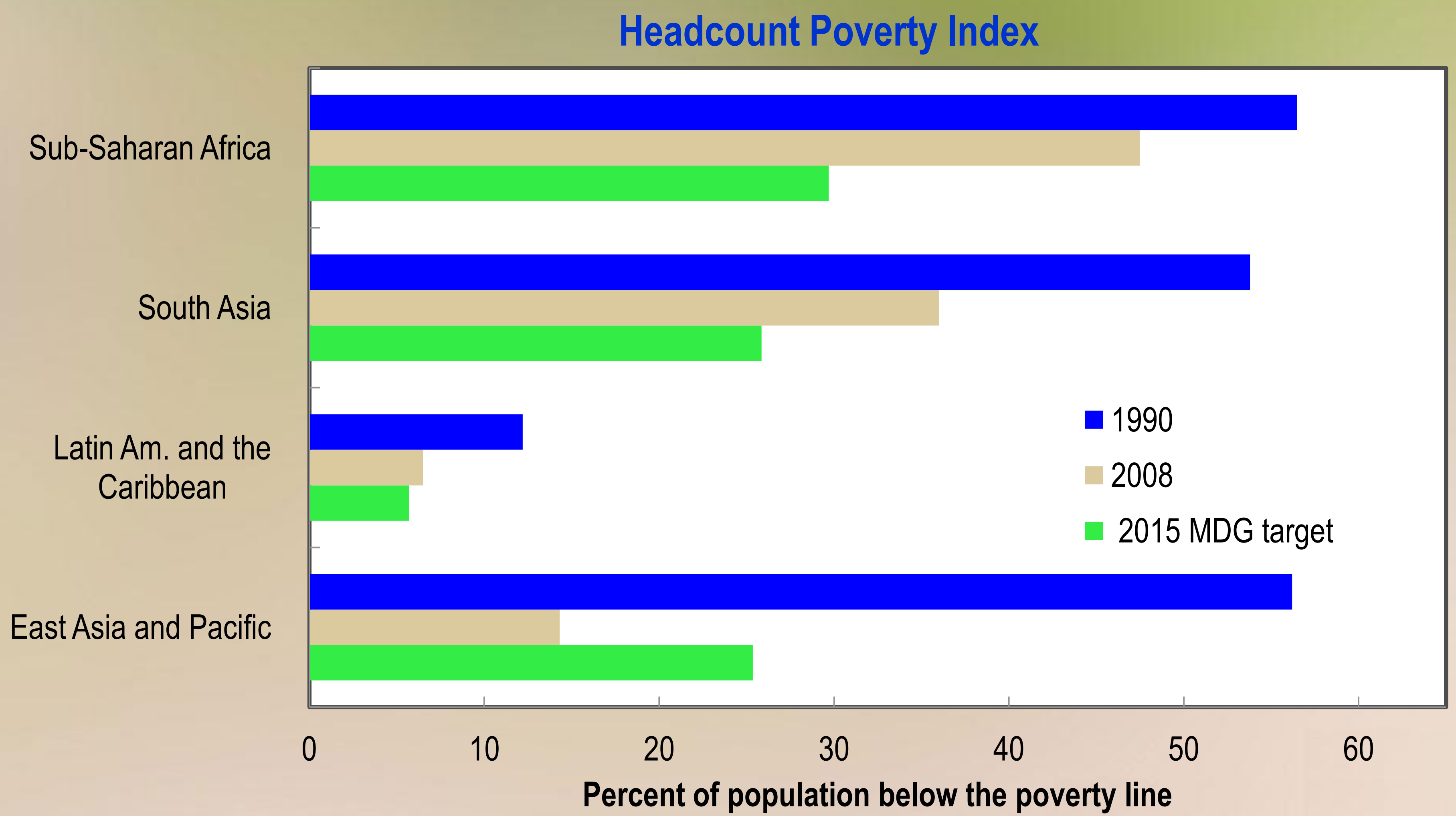
Taking a longer view, per capita growth has been taking off in many countries



Source: IMF, *World Economic Outlook*.

Note: Excludes China for presentation purposes, as China's growth is much higher than that for the other countries. ASEAN 4 = Indonesia, Malaysia, the Philippines, and Thailand.

Poverty is falling, but some of the millennium development goals (MDGs) will not be met



Turning to Uganda

First, the good news:

- Fourth PSI Review was approved by IMF Board last week
  - This is a signal that we assess macroeconomic policies are sound
  - Should have positive effect on investor and donor flows
  - Read staff report on www.imf.org/uganda

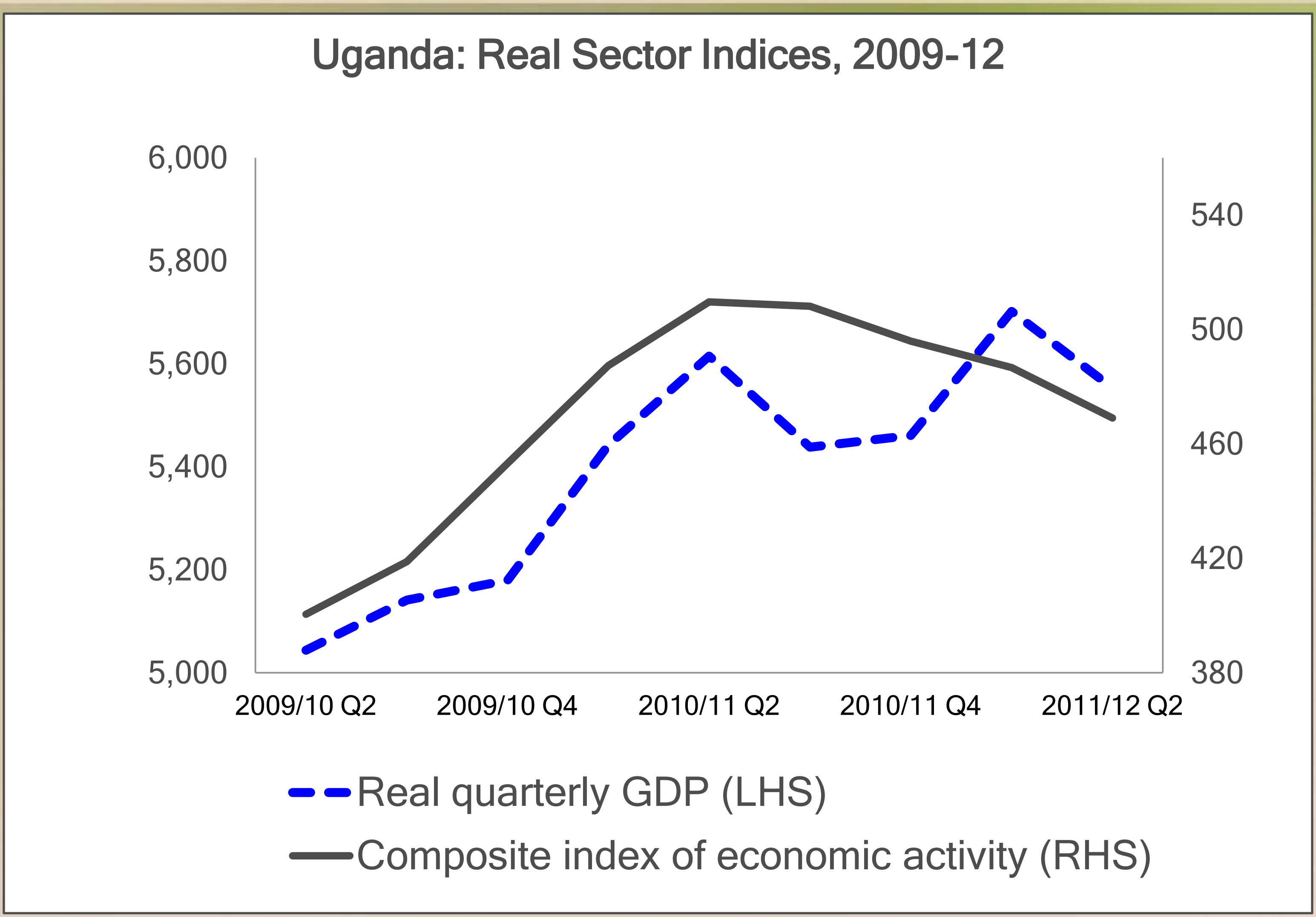
But growth has slowed, and we see three key issues which must be addressed

- Bring inflation down to single digits → maintain tight monetary policy stance and tight budget, as Minister read yesterday

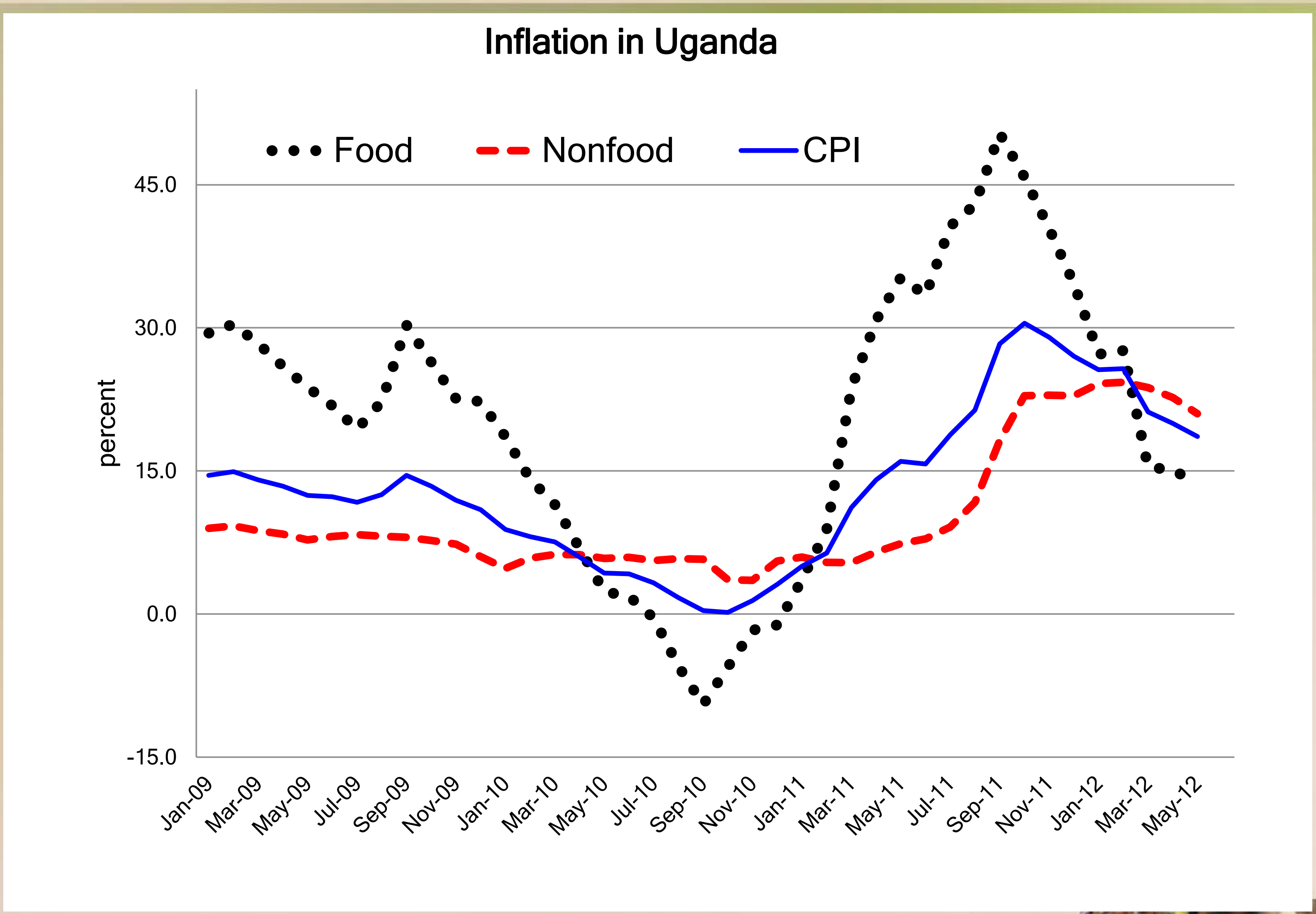
- Current account deficit is wide → maintain flexible exchange rate regime

- Need for modest budget deficits → need sustained revenue mobilization, especially *before oil revenue comes on line* (4-5 years at soonest)

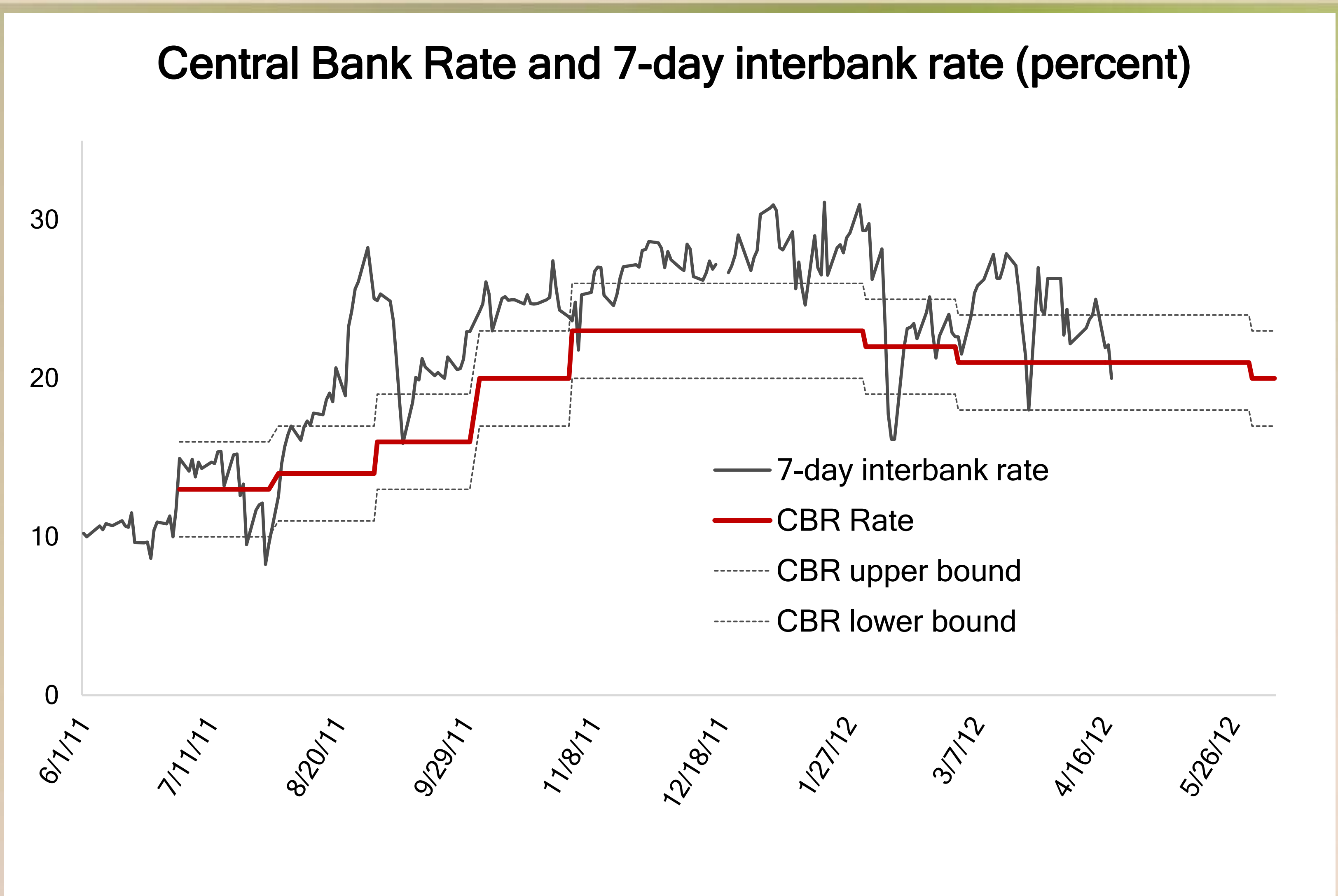
Growth is slowing due to external and domestic factors, but expected to recover



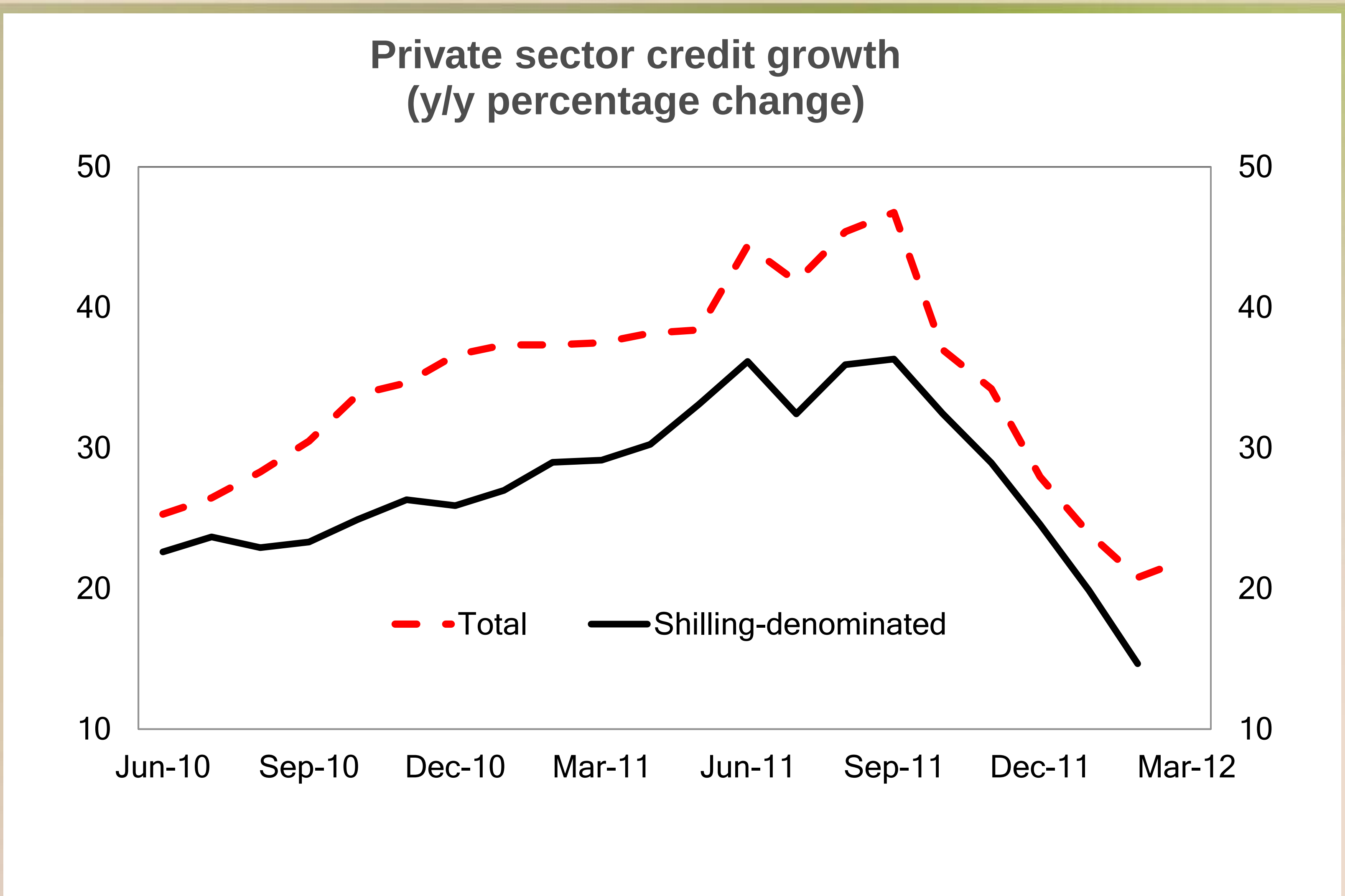
Inflation is coming down, both food and nonfood



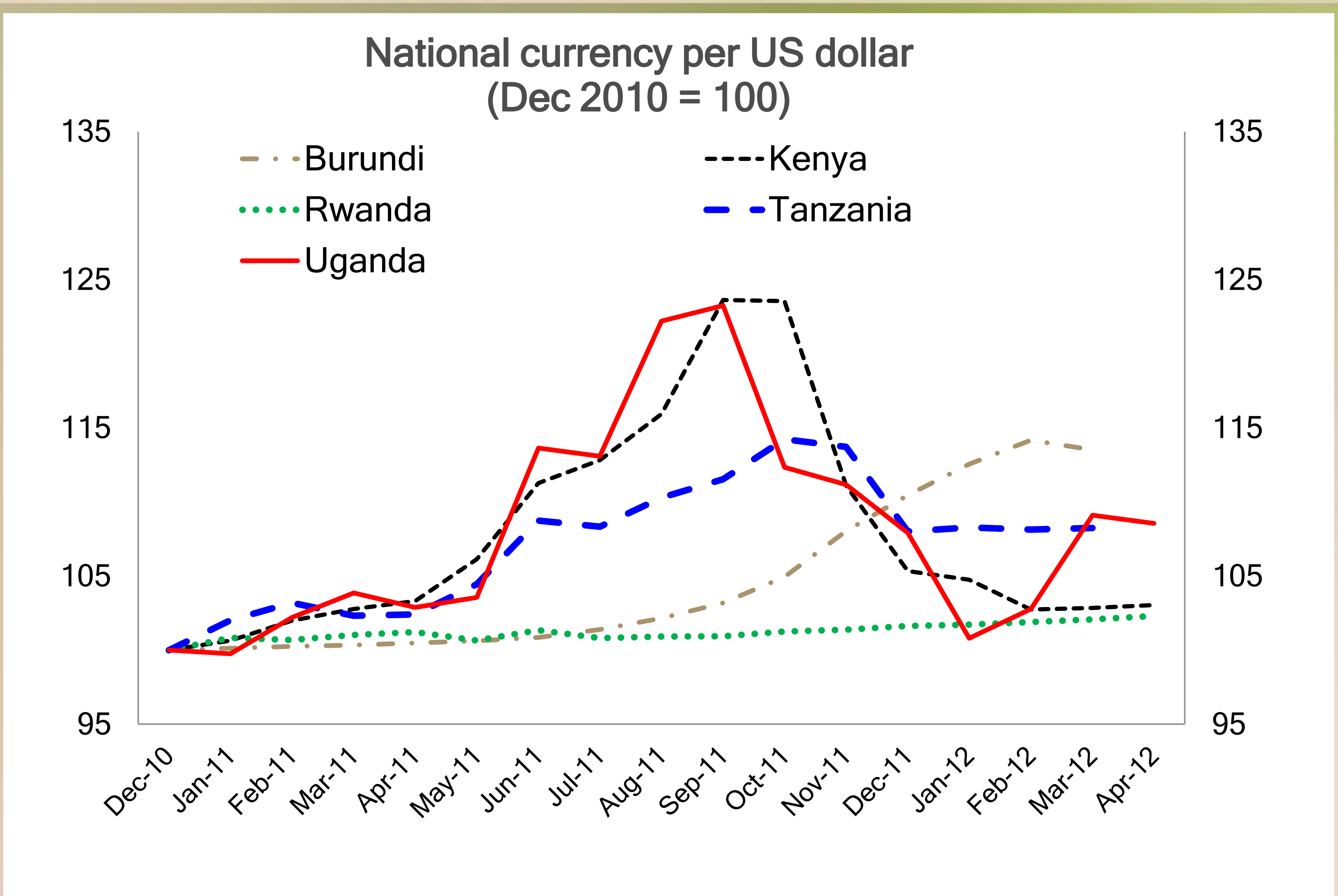
BoU tightened monetary policy appropriately, and has now begun to ease gradually



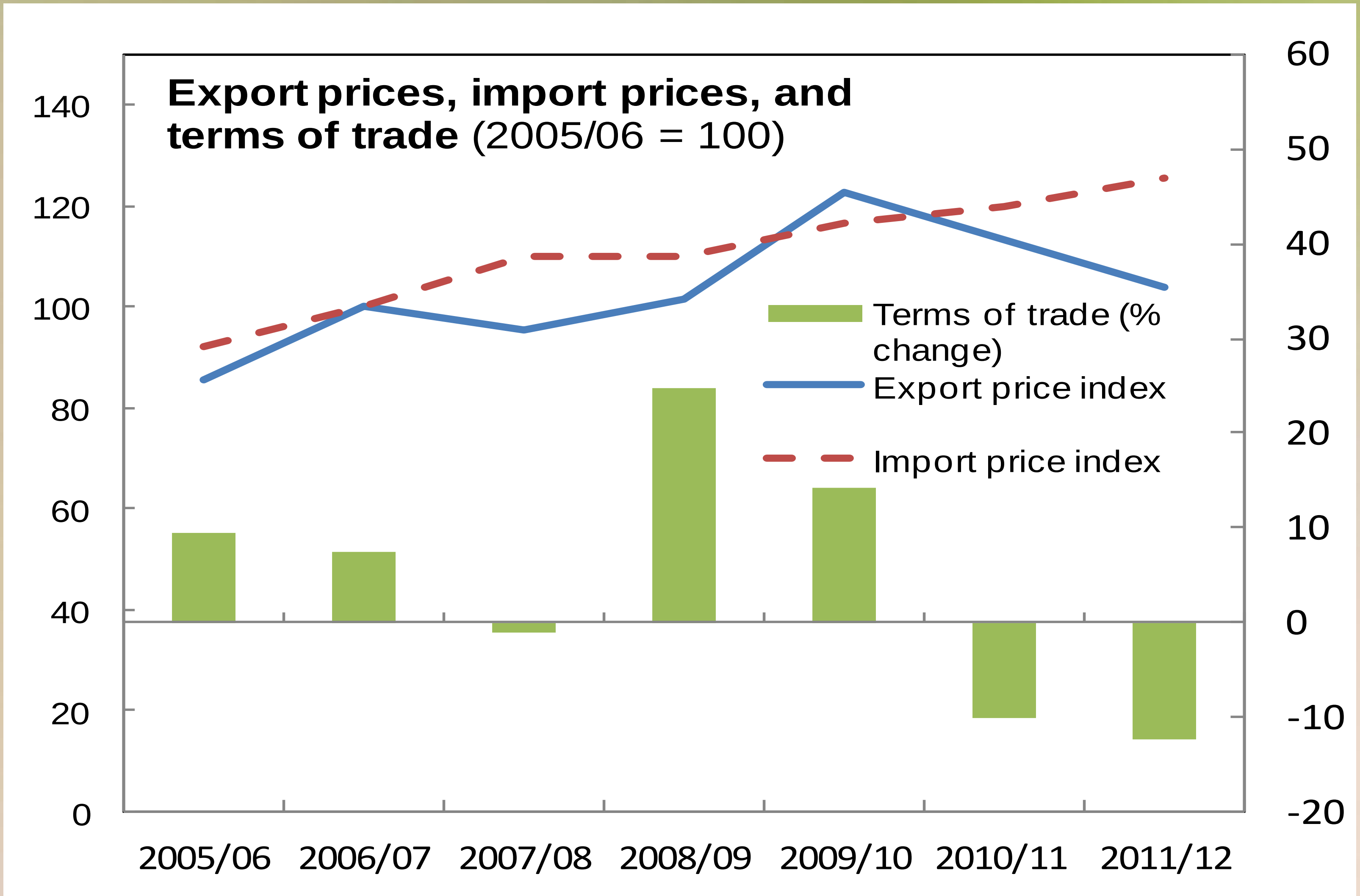
Tighter monetary policy has had an effect on private sector credit



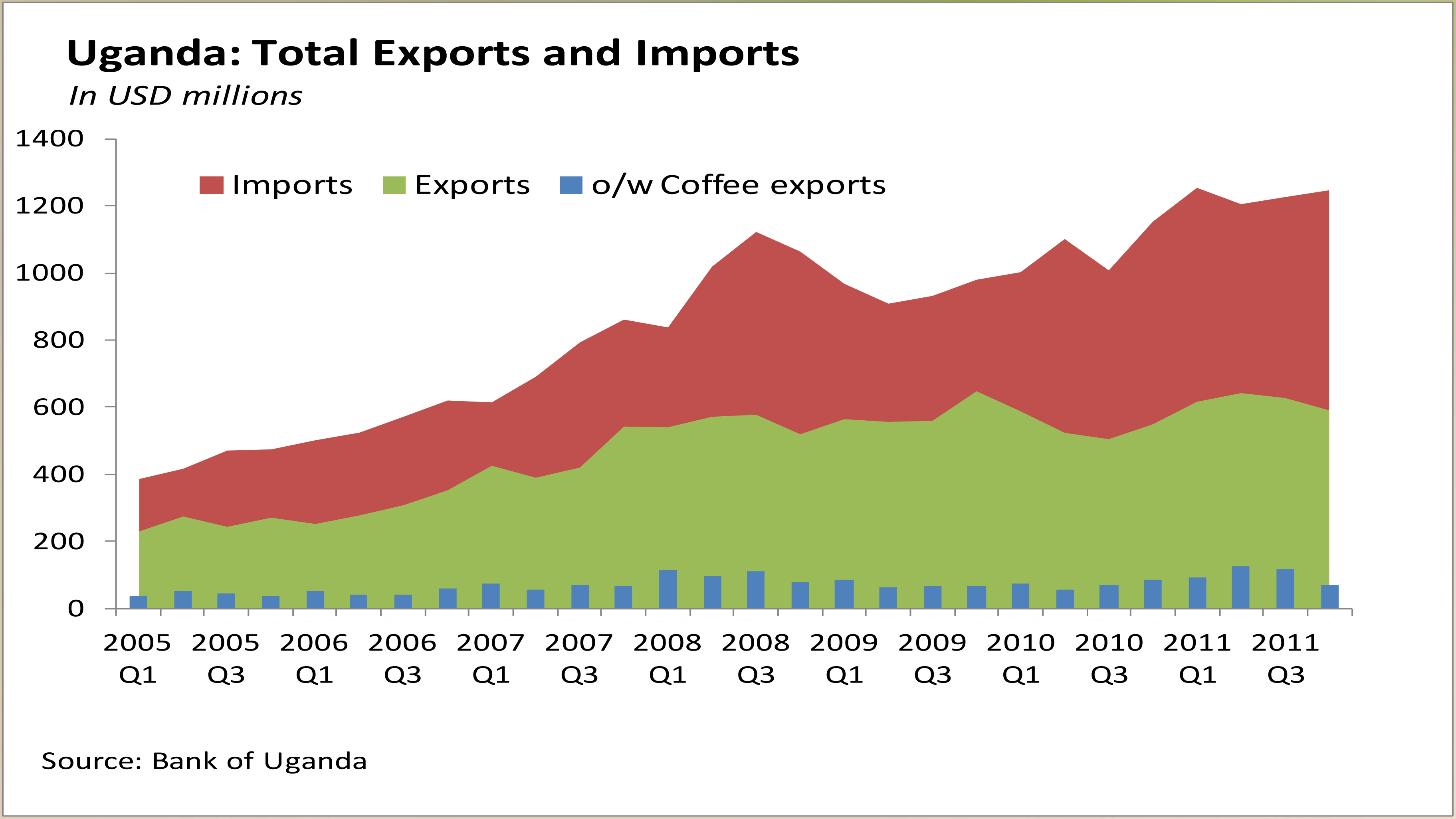
Exchange rate volatility has been an important shock absorber, but also fed through to inflation



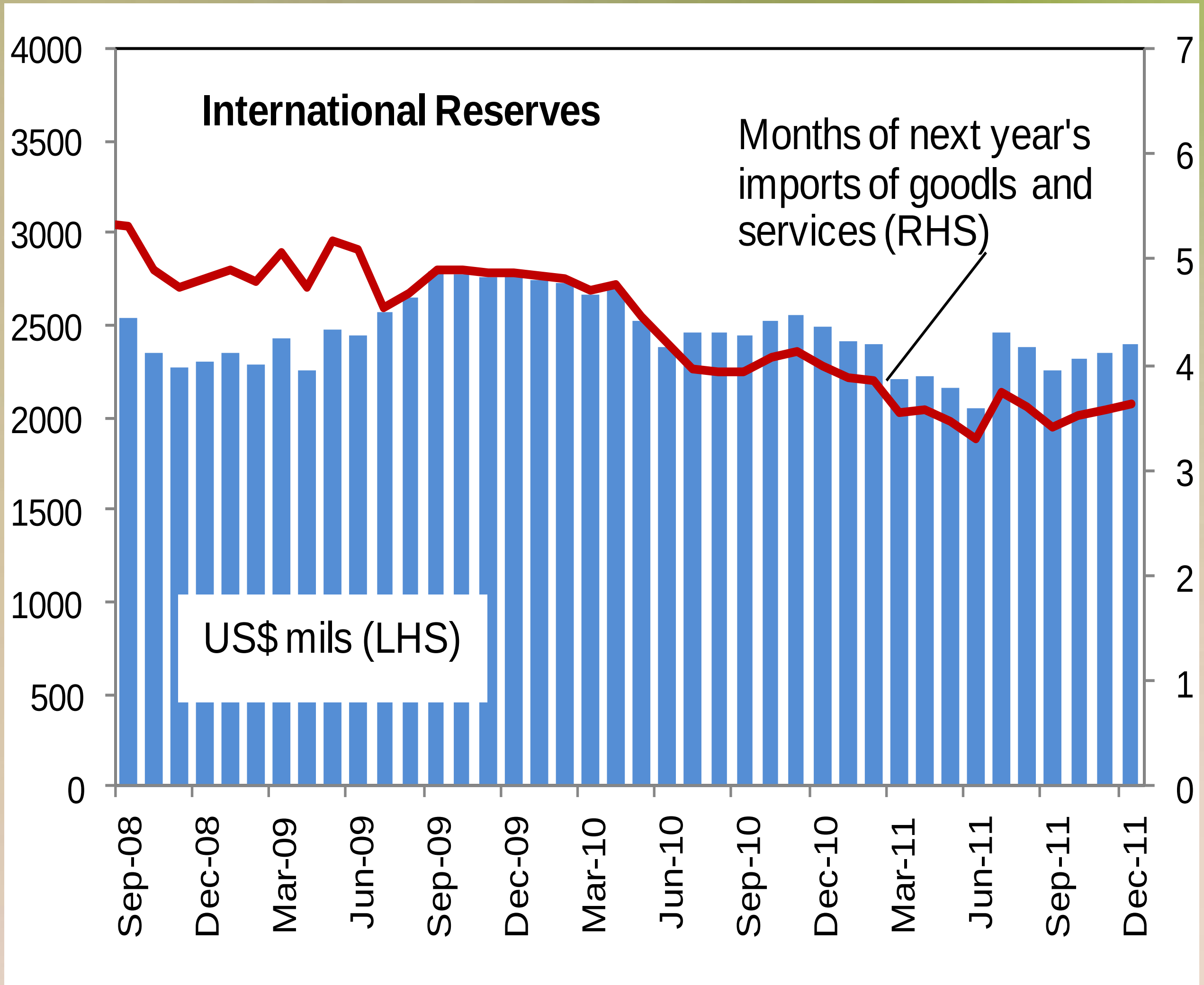
At the same time, the terms of trade have clearly deteriorated



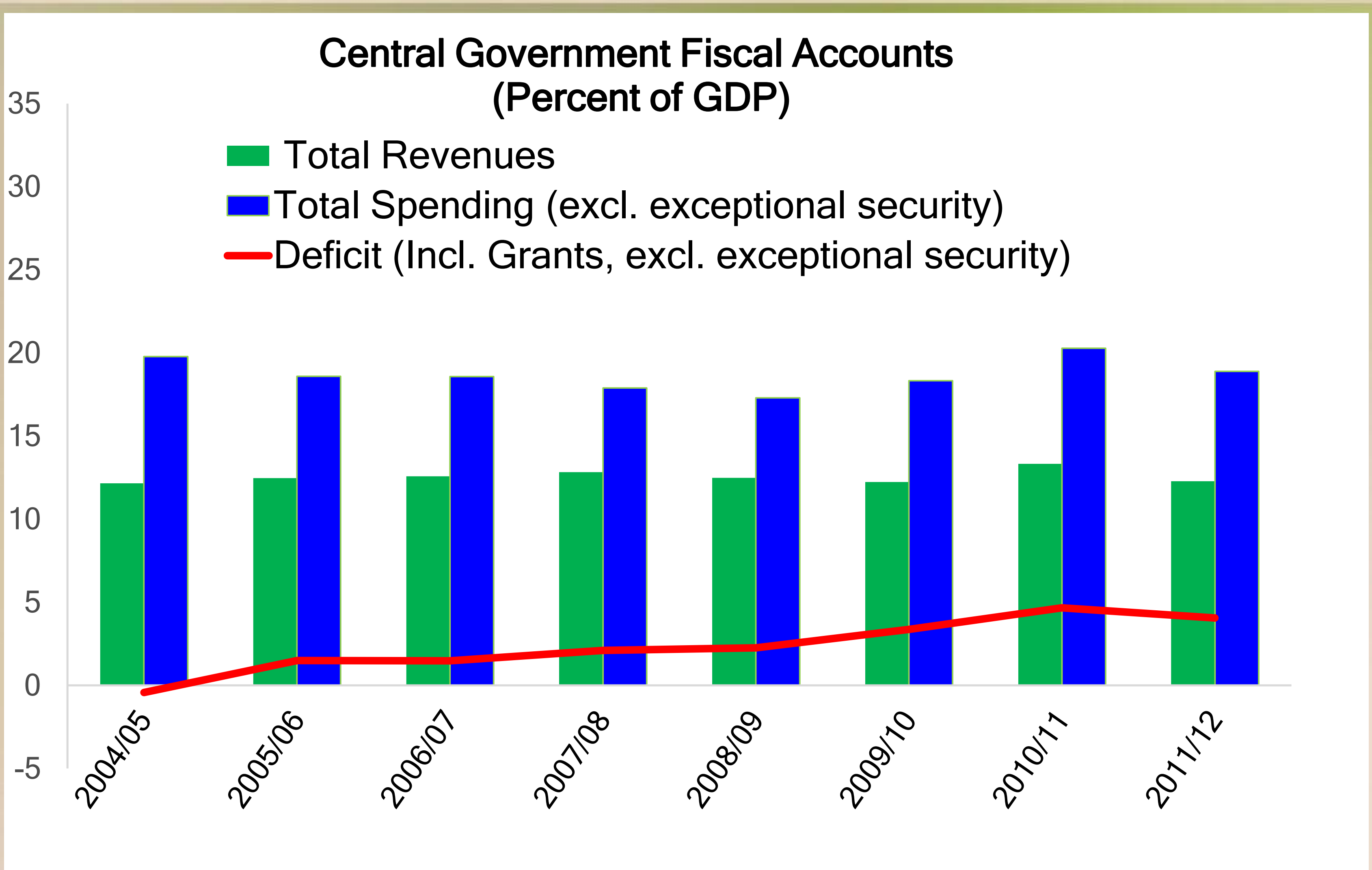
As a result, the trade deficit has widened, particularly because of strong import demand



Reserves have fallen modestly in months of future imports (infrastructure imports are large)

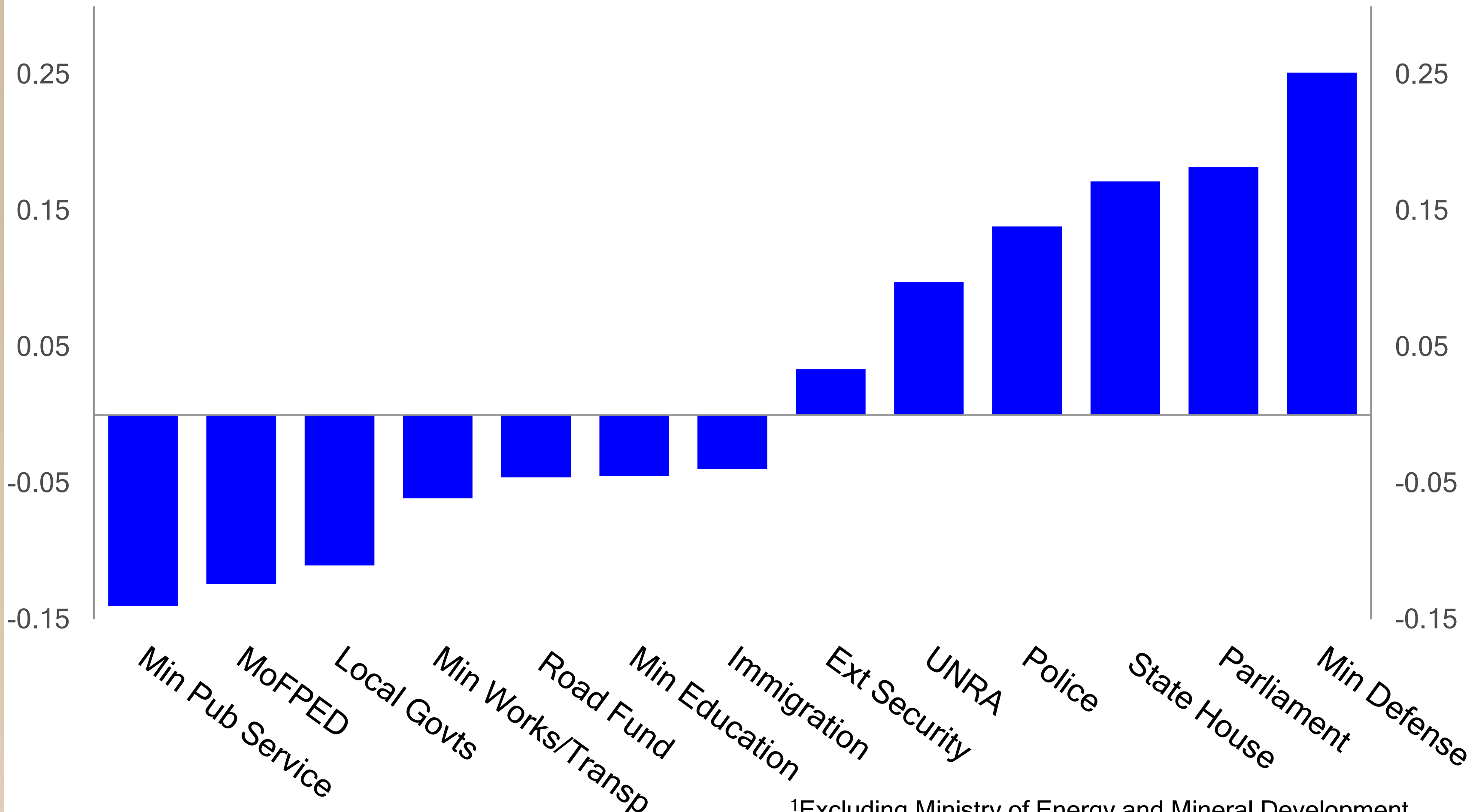


Fiscal policy remains supportive of disinflation



But supplementary budgets distort spending priorities

Revisions to Recurrent Spending Compared to Original 11/12 Budget[1]
(Largest adjustments to appropriation—by agency, percent of GDP)



[1]Excluding Ministry of Energy and Mineral Development

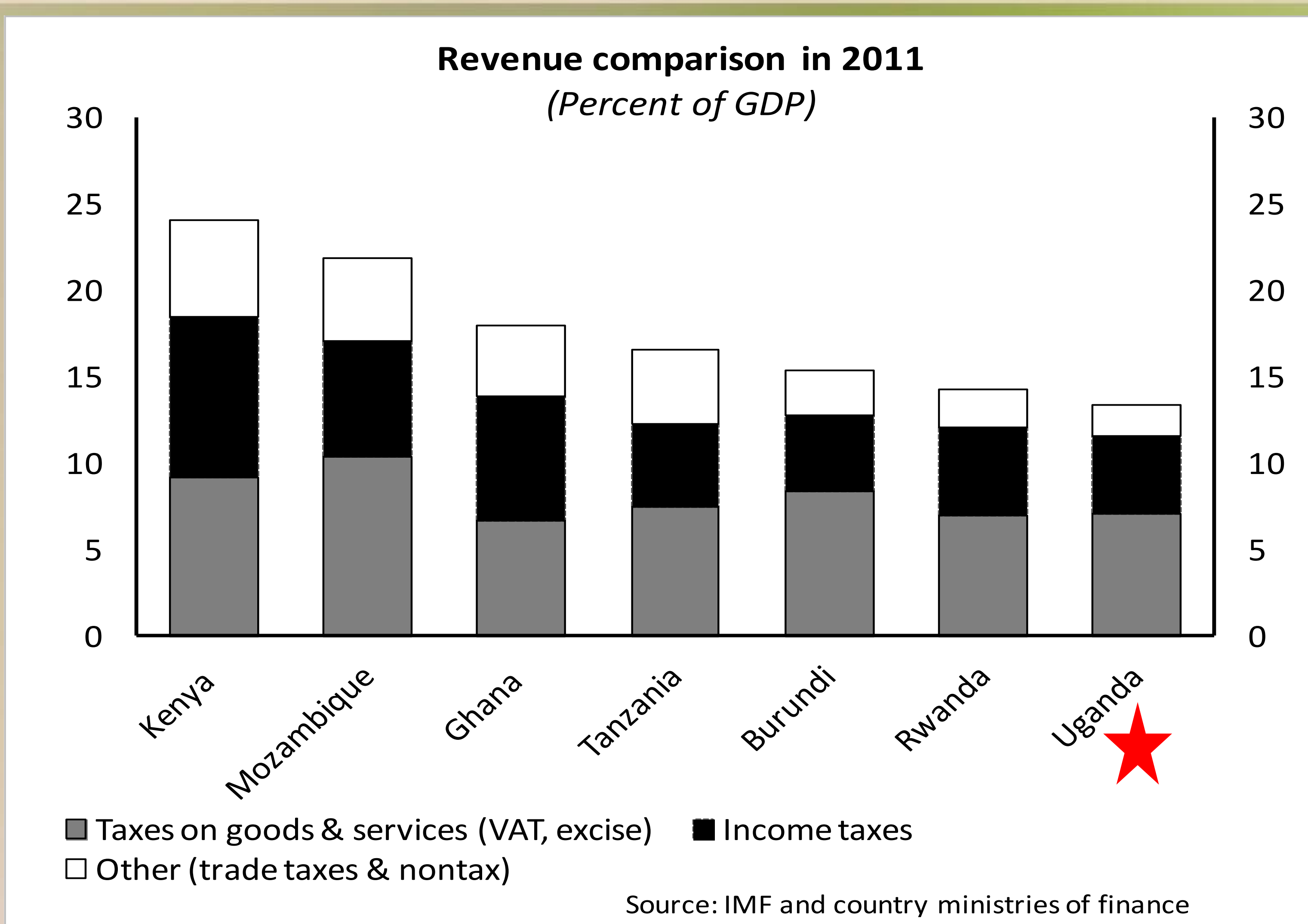
And infrastructure needs are massive

“Lake Bunyonyi”

Daily Monitor, August 27, 2010

Revenue mobilization is a challenge in Uganda

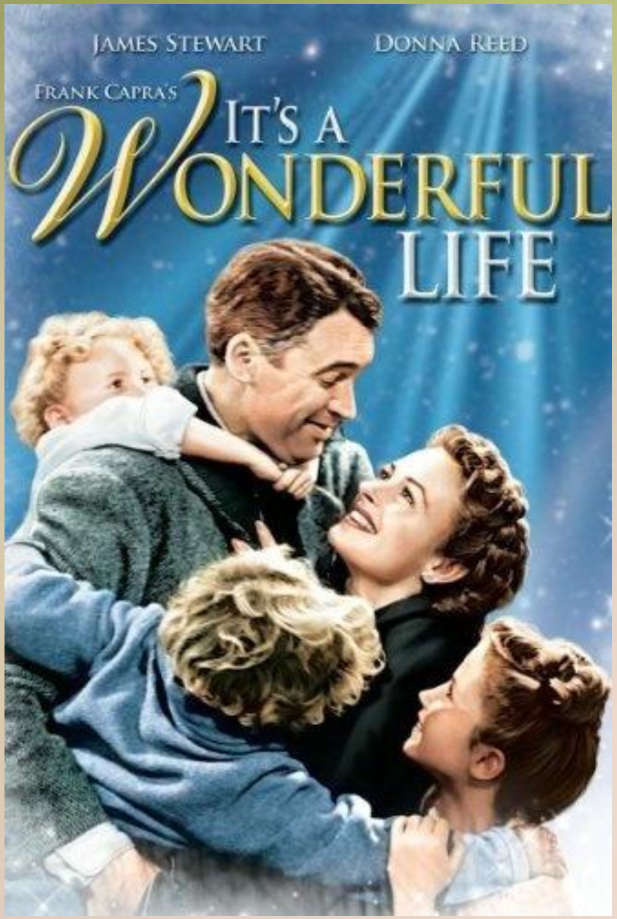
need to examine tax exemptions and incentives



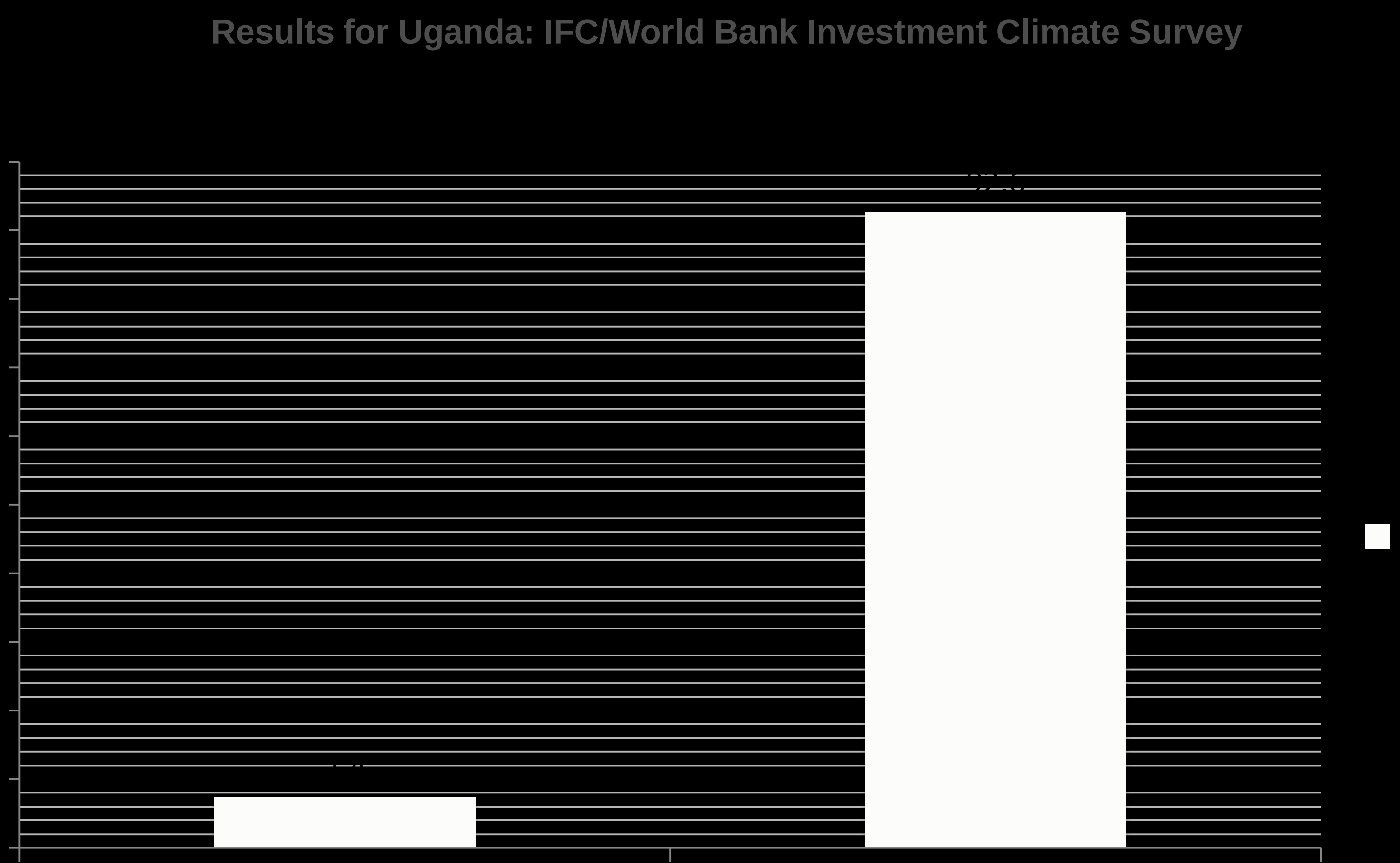
In case you missed the point: there is a link between potholes and tax loopholes

Reminds me of a favorite film:

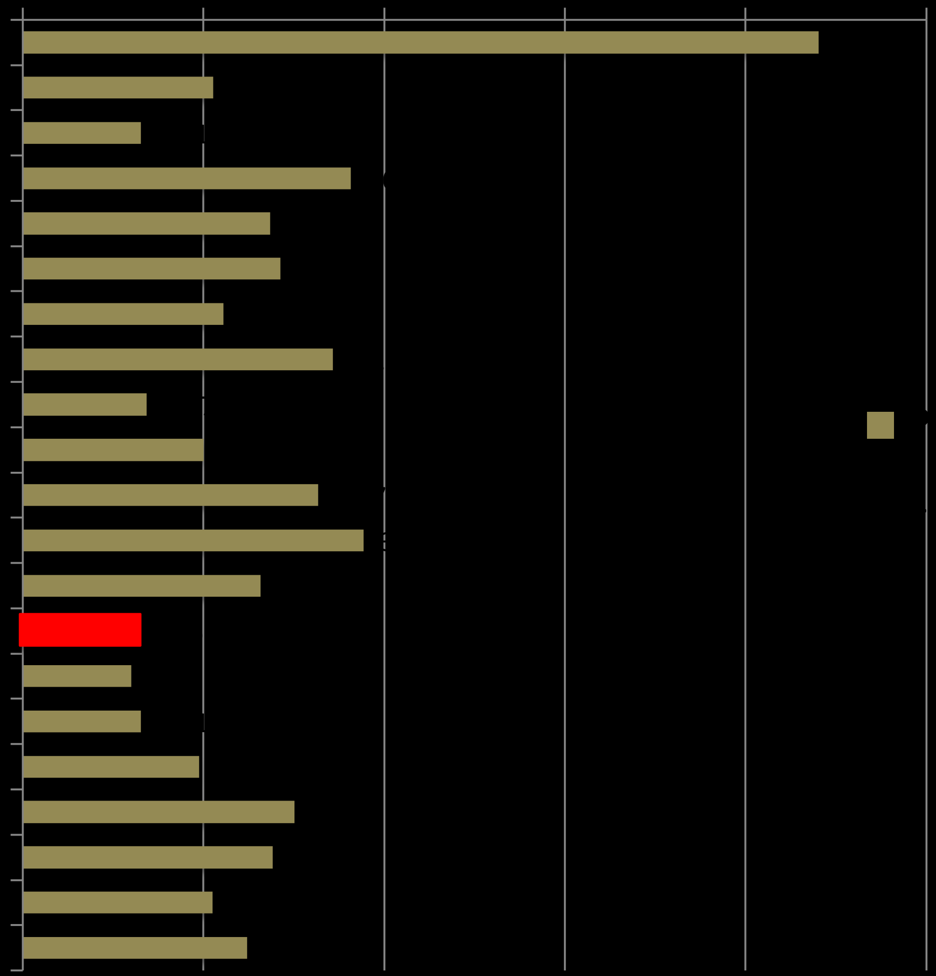
Daily Monitor, August 27, 2010



Over 90% of the investors said they would have invested even if the didn’t receive any fiscal or tax incentives



Tax incentives are one of the least important factors in investment decisions



Uganda: IFC/ World Bank Investment Climate Survey

Conclusions

- Inflation is coming down because of tough fiscal and monetary policy choices
- Current account deficit is wide → need to focus on competitiveness
- 2012/13 Budget is appropriate, but more fiscal space is clearly needed → tax regime should be cleaned up

  Remember: potholes are caused by loopholes!

Thank you for your attention

Want to know more?

- www.imf.org/weo: World Economic Outlook
- www.imf.org/uganda: IMF documents on Uganda
- www.imf.org/kampala: Regional Outlook, speeches
- RR-UGA@imf.org: Email contact with local office