



# Recent Economic Developments and Outlook: Uganda in a Global and Regional Context

Ana Lucía Coronel,  
Ari Aisen, Clara Mira

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# Outline



- World and Regional Outlook
- EAC Integration
- Uganda: Developments and Prospects



- **World and Regional Outlook**
- **EAC Integration**
- **Uganda: Developments and Prospects**

# Main themes for the global economy

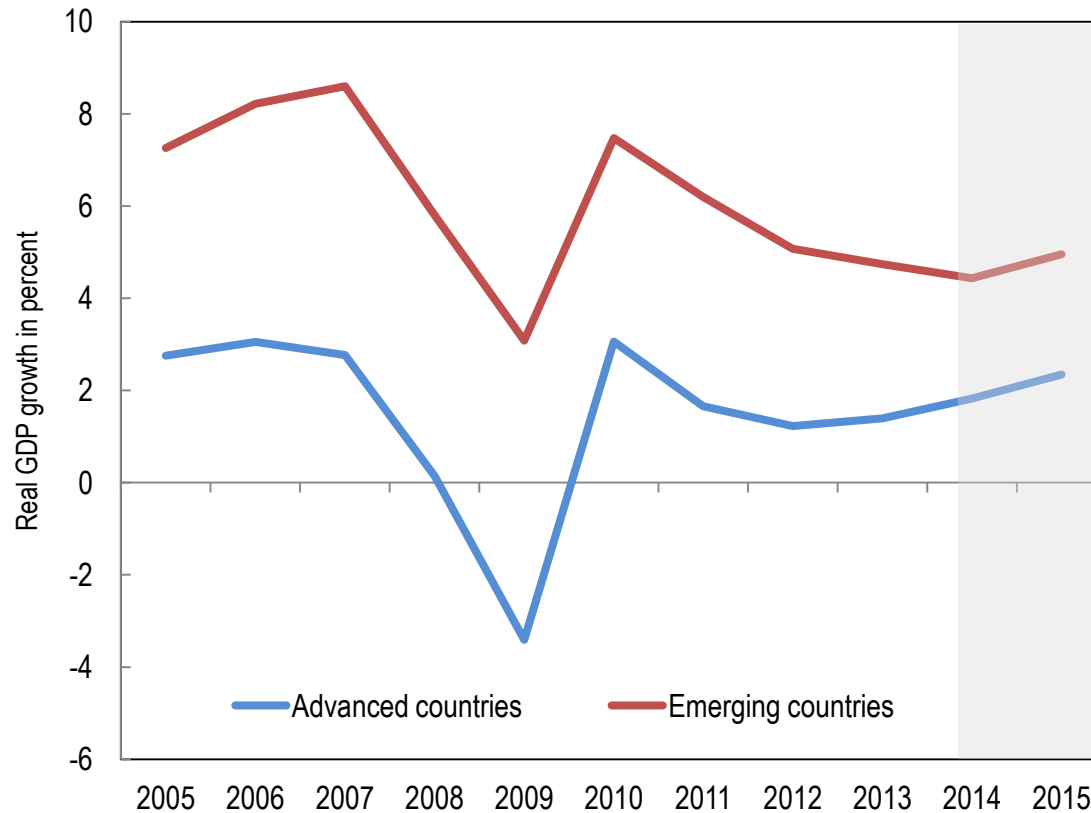


- Legacies from the crisis
  - High public and/or private debt still affecting outlook
- Clouds
  - Low potential growth reflected in low demand today
- Uncertainties
  - Geopolitical tensions: Russia/Ukraine and the middle east
  - Financial markets correction: Higher equity prices, risk spread compression, and very low price volatility could reverse

Global growth is expected to strengthen gradually.



**Advanced and Emerging Economies: GDP growth 2005–16**



# The gradual recovery faces increased downside risks



## Global growth

- Very accommodative monetary policy and supportive financial market conditions benefit growth in advanced economies
- Growth in some emerging economies supported by higher external demand in advanced economies and the gradual lifting of structural impediments to growth

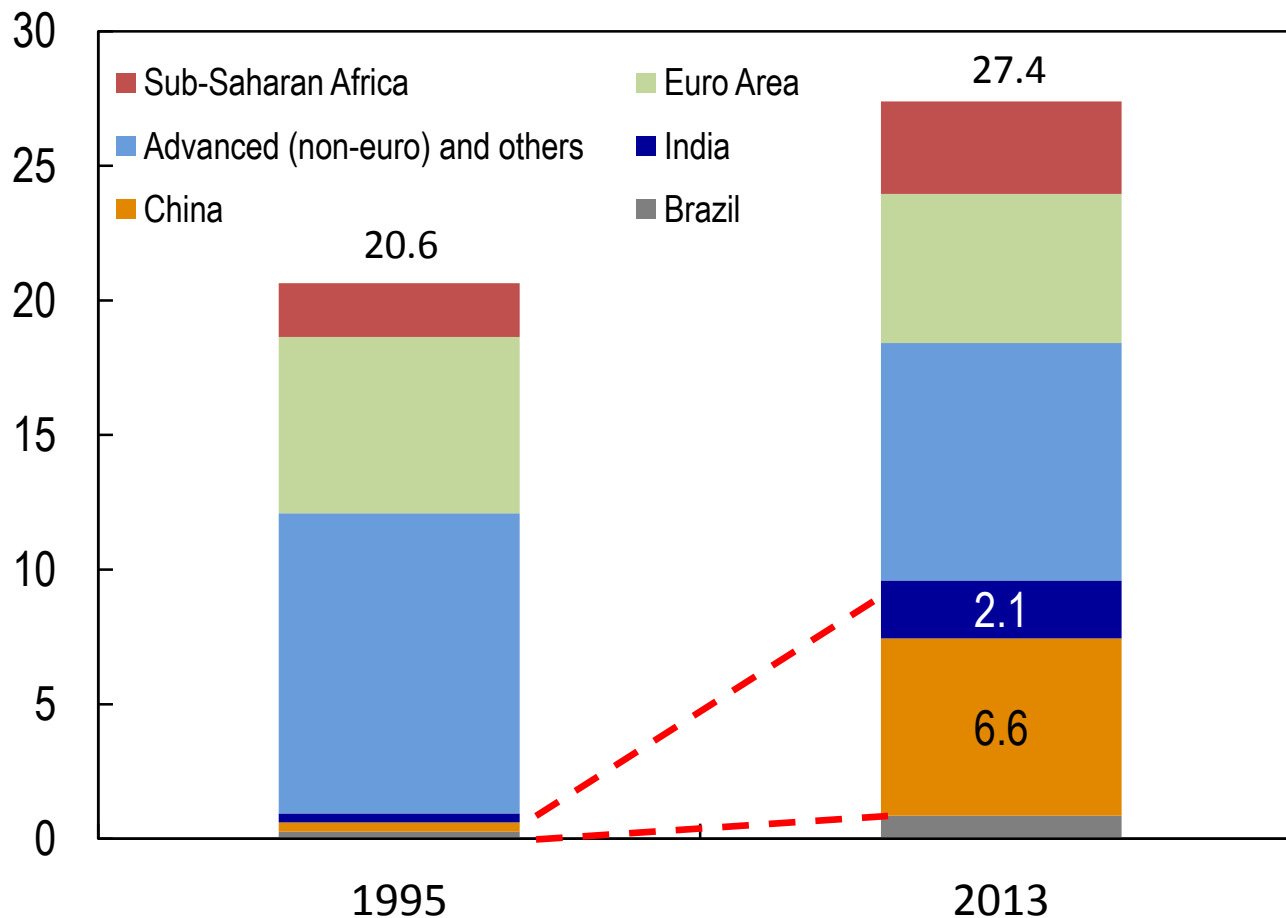
## Downside risks

- Geopolitical tensions.
- Stagnation risks in advanced economies; low inflation in the euro area;

# Sub-Saharan Africa's trade linkages have expanded substantially, mostly with China and India.



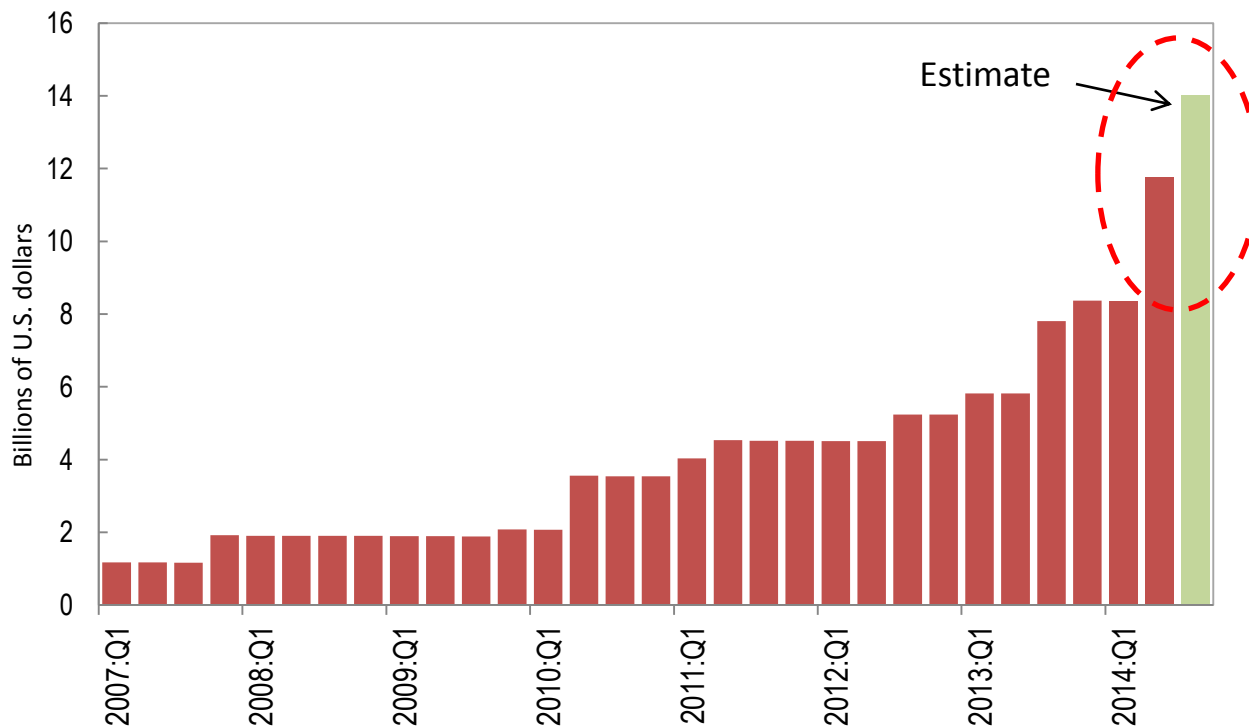
Sub-Saharan Africa: Exports by Partner 1995 and 2013, percent of GDP





Financial ties have expanded rapidly too, especially for market access economies.

Sub-Saharan Africa: Market Access Economies, Outstanding International Sovereign Bonds



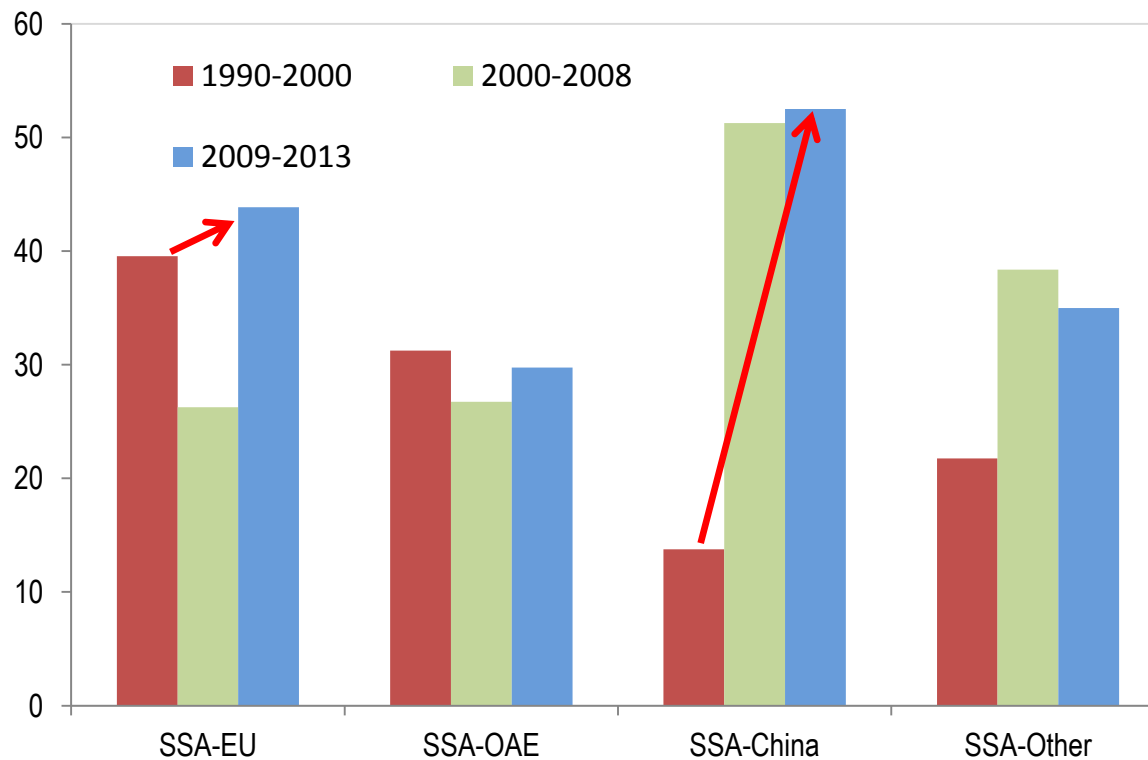
Note: Market access economies includes Angola, Côte d'Ivoire, Ghana, Kenya, Mauritius, Nigeria, Rwanda, Senegal, Tanzania, Uganda, and Zambia.



As a consequence, the region is more tightly connected with the rest of the world.



Sub-Saharan Africa: Share of bilateral correlations of GDP growth that exceed 0.5, 1990-2013

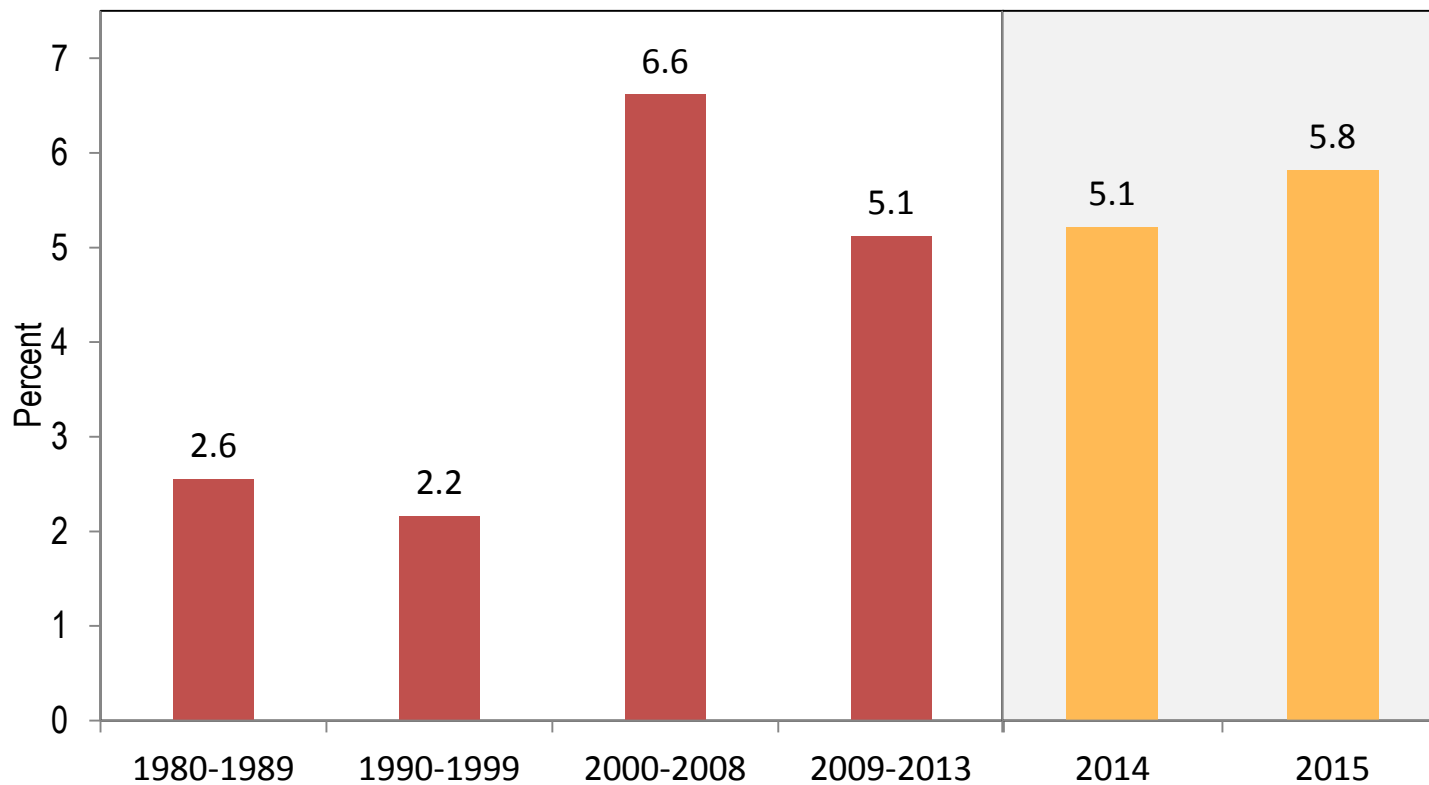


Note: EU signifies European Union, OAE signifies Other Advanced Economies.

# Sub-Saharan Africa is set to maintain robust growth...



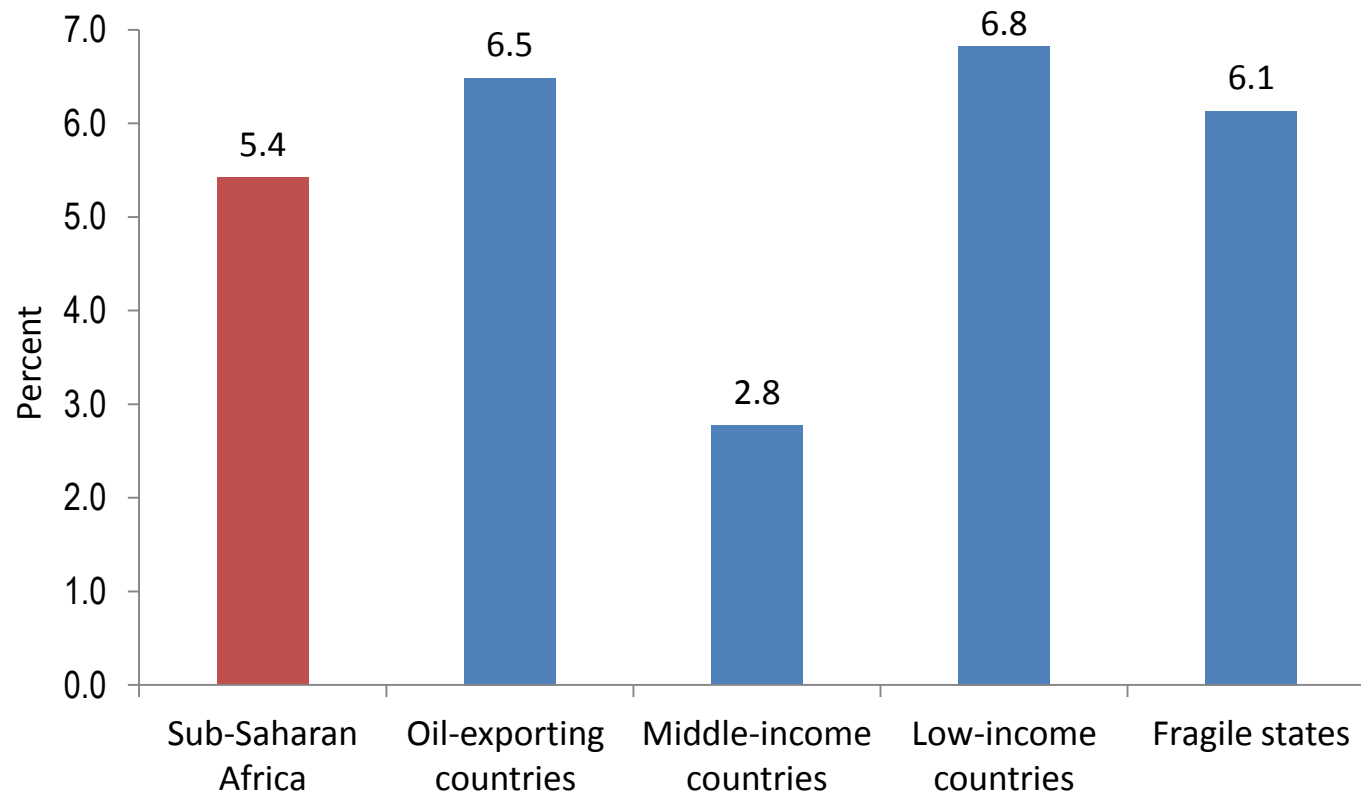
Sub-Saharan Africa: Average Real GDP Growth, 1980-2015



... particularly in low-income countries.



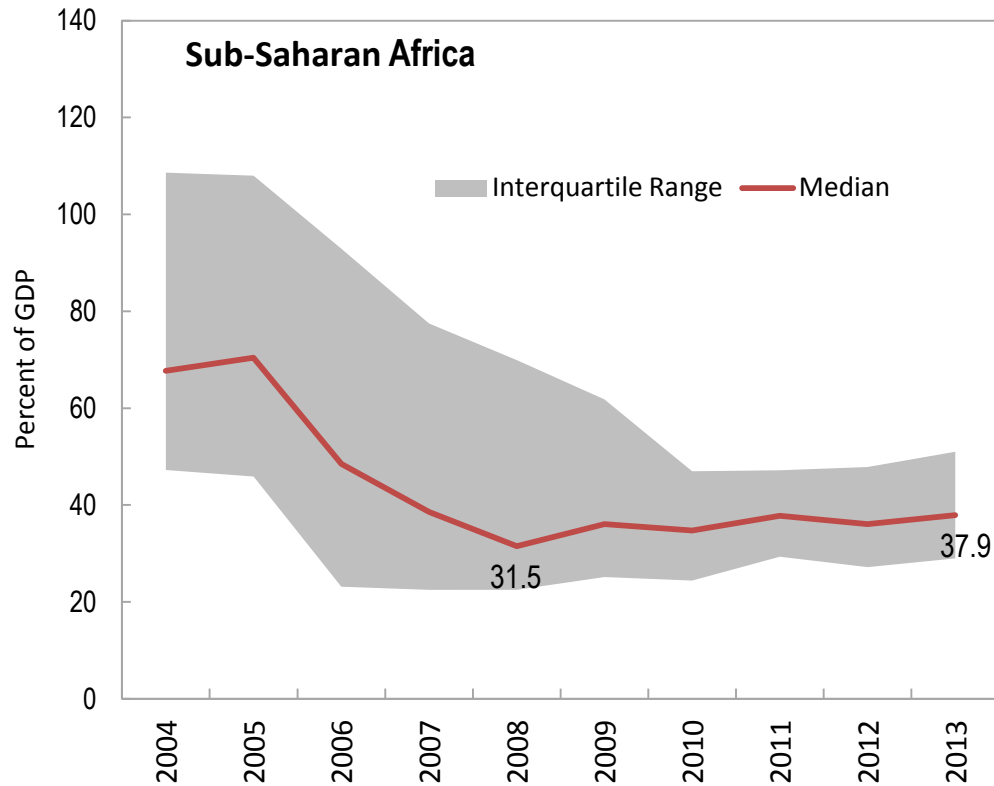
Sub-Saharan Africa: Average Real GDP Growth, 2014-15



Public debt to GDP ratios for the whole region are broadly stable.



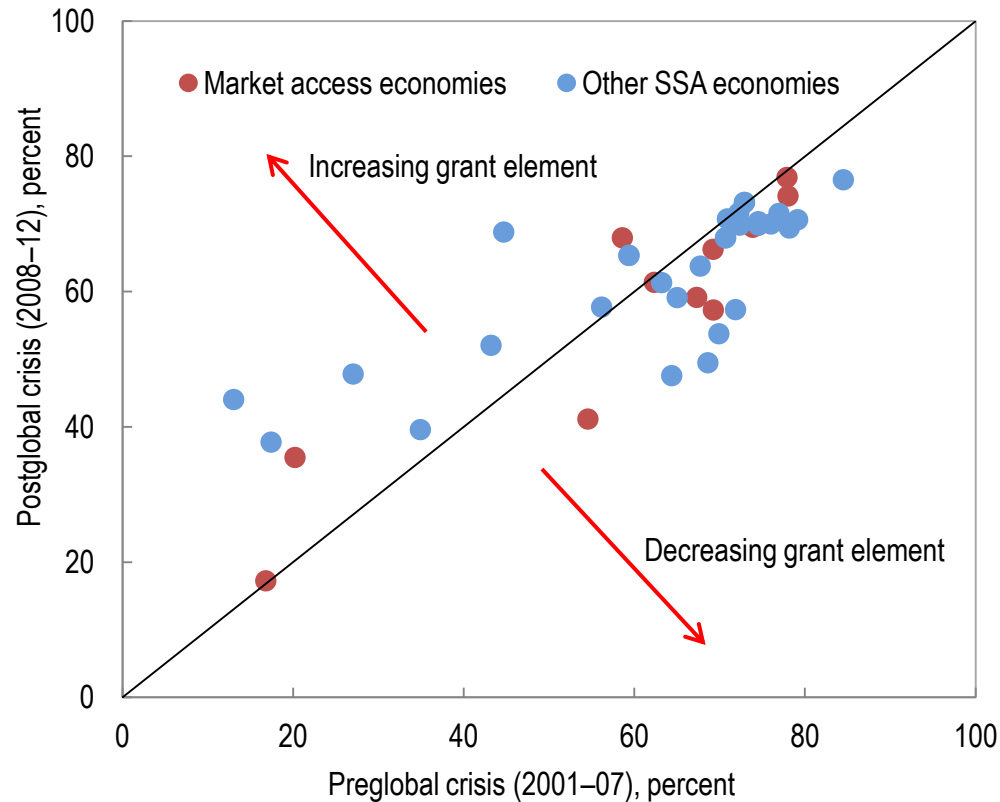
### Sub-Saharan Africa: Public Sector Debt 2004-2013



External borrowing is becoming less concessional, with lower grant element of new external commitments.



**Sub-Saharan Africa: Average Grant Element, 2001-2012**





## Bottom line

- Sub-Saharan Africa will remain the second fastest growing region in the world
  
- But there are significant downside risks:
  - Spread of the Ebola outbreak beyond the three countries currently affected
  - A marked slowdown in emerging markets or a more protracted period of low growth in advanced economies

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# Benefits of Regional Integration



- Lower transactions costs and higher economies of scale
- Increased competition
- Improved coordination on regional infrastructure projects
- Easier movement of goods, services, labor and capital across borders
- Increased intra-regional trade and investments
- Improved business climate
- Boost prospects for growth and job creation



# Challenges to Regional Integration



- Businesses need to adapt to increased competition
- Non-tariff barriers may stifle benefits from integration
- Lobbying for protectionist policies
- Ensuring efficient public investment management to avoid cost overruns
- Macroeconomic policy harmonization is required for monetary union

# Monetary Union - Convergence criteria



## ➤ **Primary convergence criteria**

- Ceiling on headline inflation (8 percent)
- Ceiling on Fiscal deficit including grants (3 percent of GDP)
- Ceiling on gross public debt (50 percent of GDP in net present value terms)
- Floor on reserve coverage (4.5 months of imports)

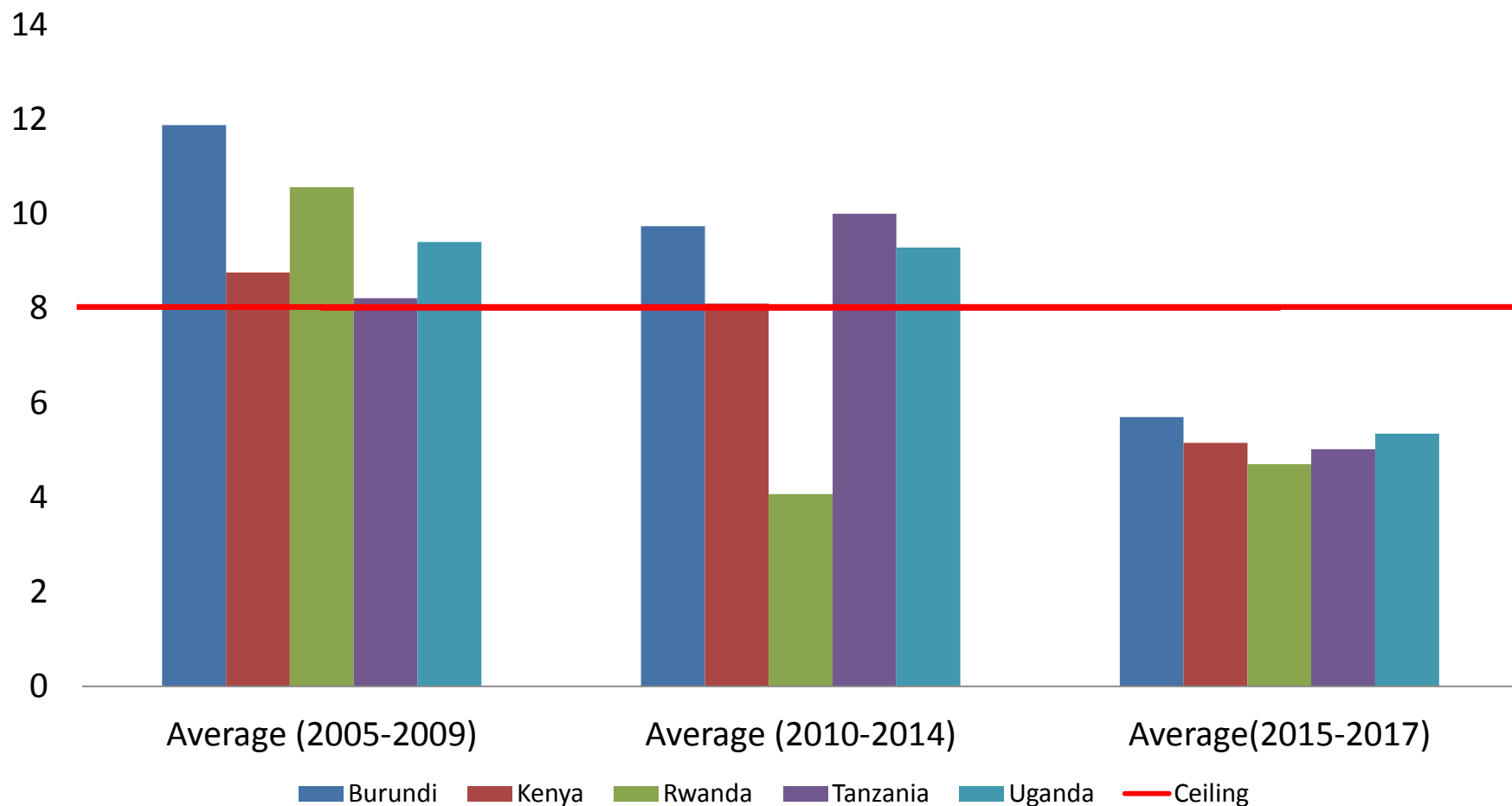
## ➤ **Indicative criteria**

- Ceiling on core inflation (5 percent)
- Ceiling on fiscal deficit excluding grants (6 percent of GDP)
- Floor on the tax-to-GDP ratio (25 percent)



# Convergence Criteria

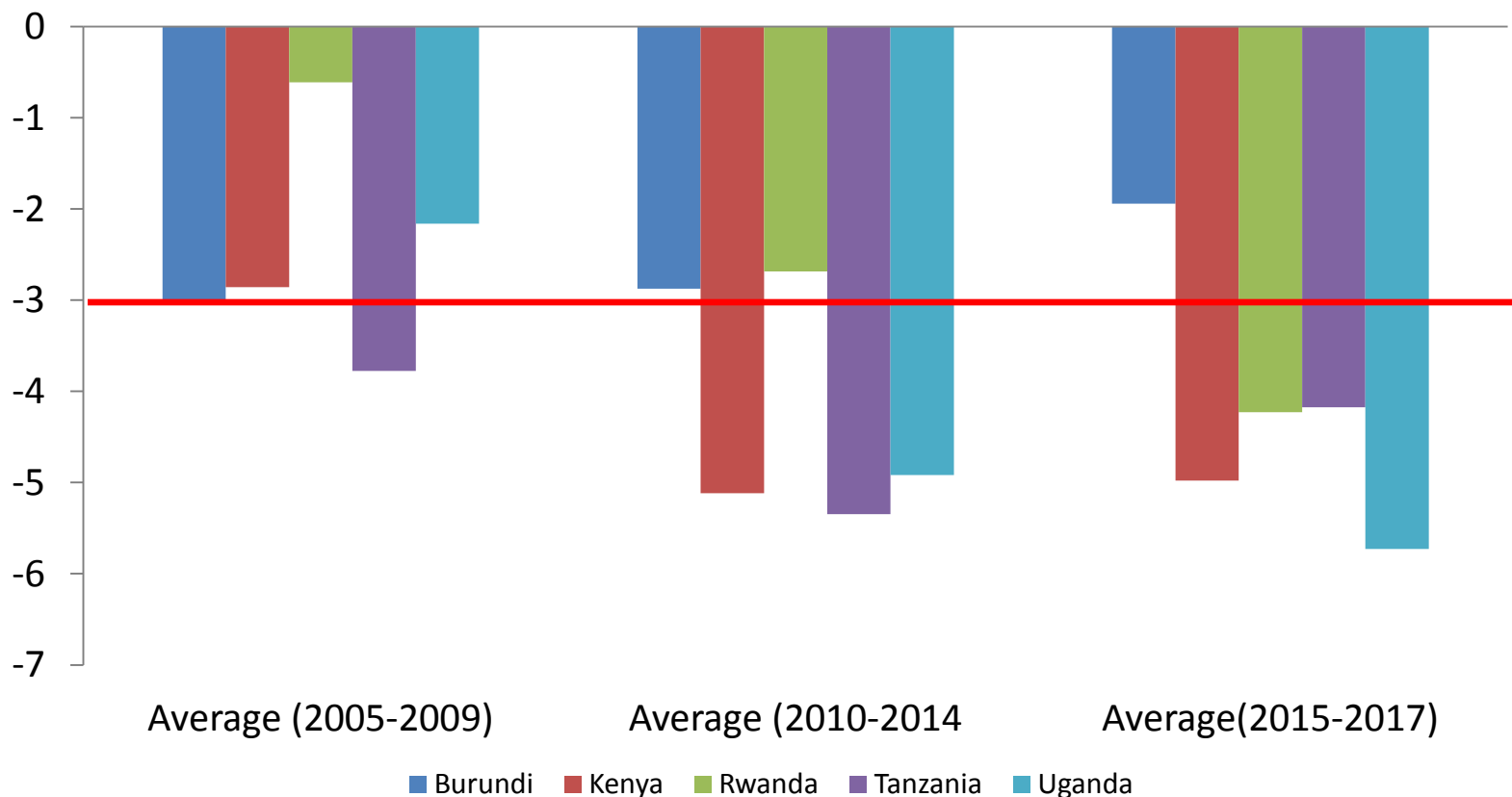
## Headline Inflation





# Convergence Criteria

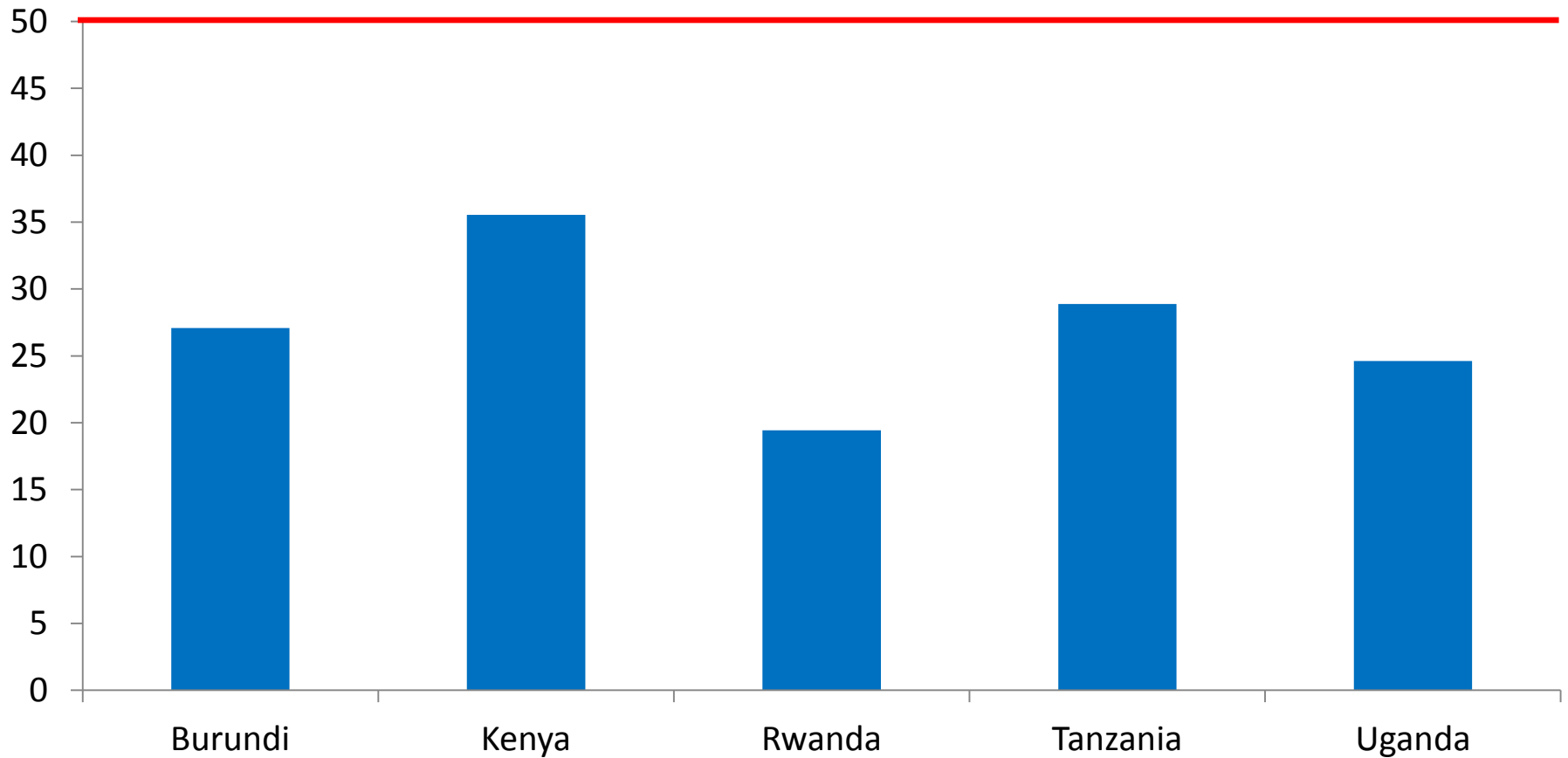
## Fiscal Deficit Including Grants (Percent of GDP)



# Convergence Criteria



**Present Value of Public Sector Debt, 2013**  
(percent of GDP)





# Convergence Criteria

6

## Reserve Coverage (months of imports)

5

4

3

2

1

0

Average (2005-2009)

Average (2010-2014)

Average (2015-2017)

Burundi

Kenya

Rwanda

Tanzania

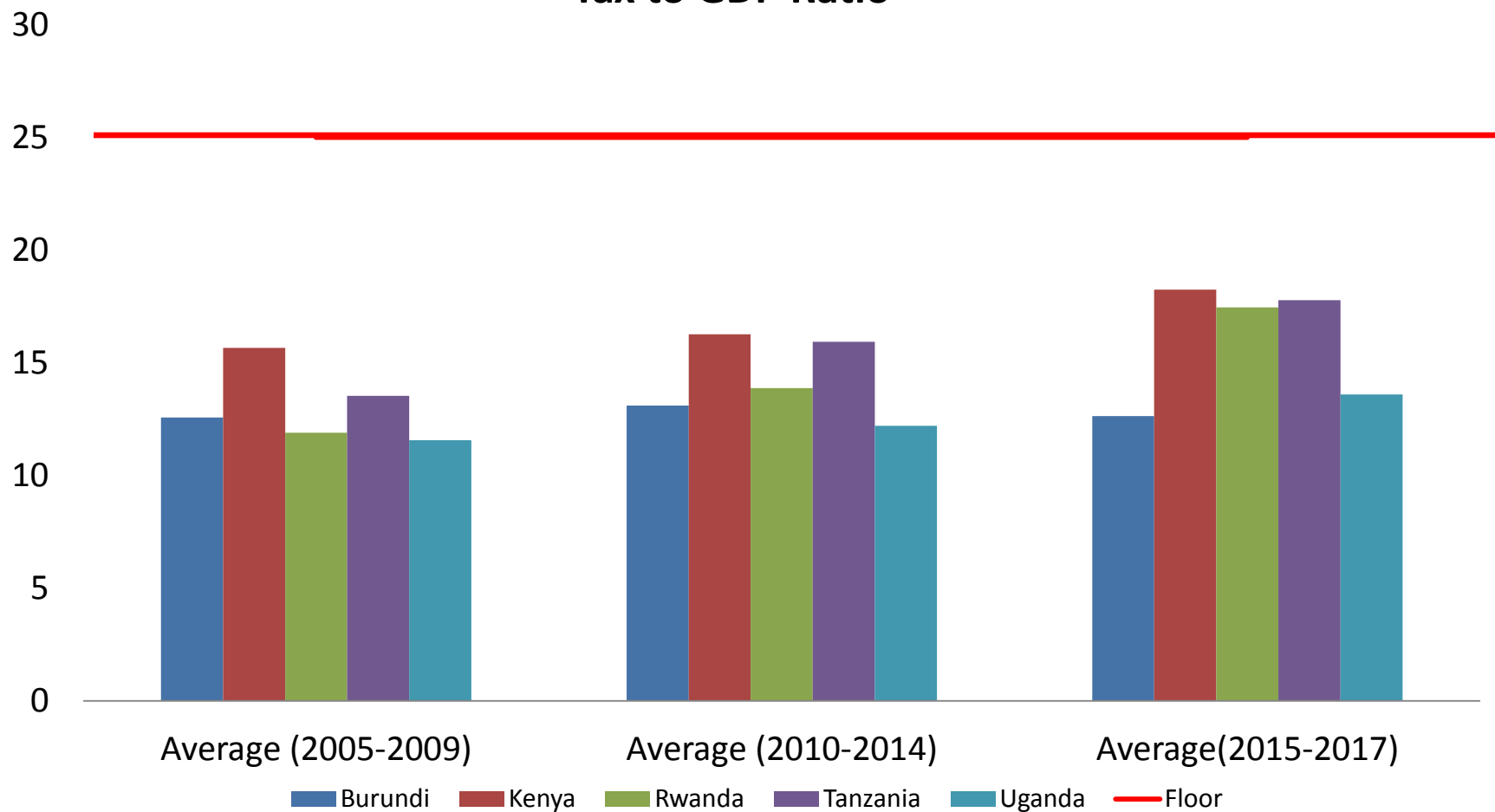
Uganda





# Convergence Criteria

## Tax to GDP Ratio



# Outline



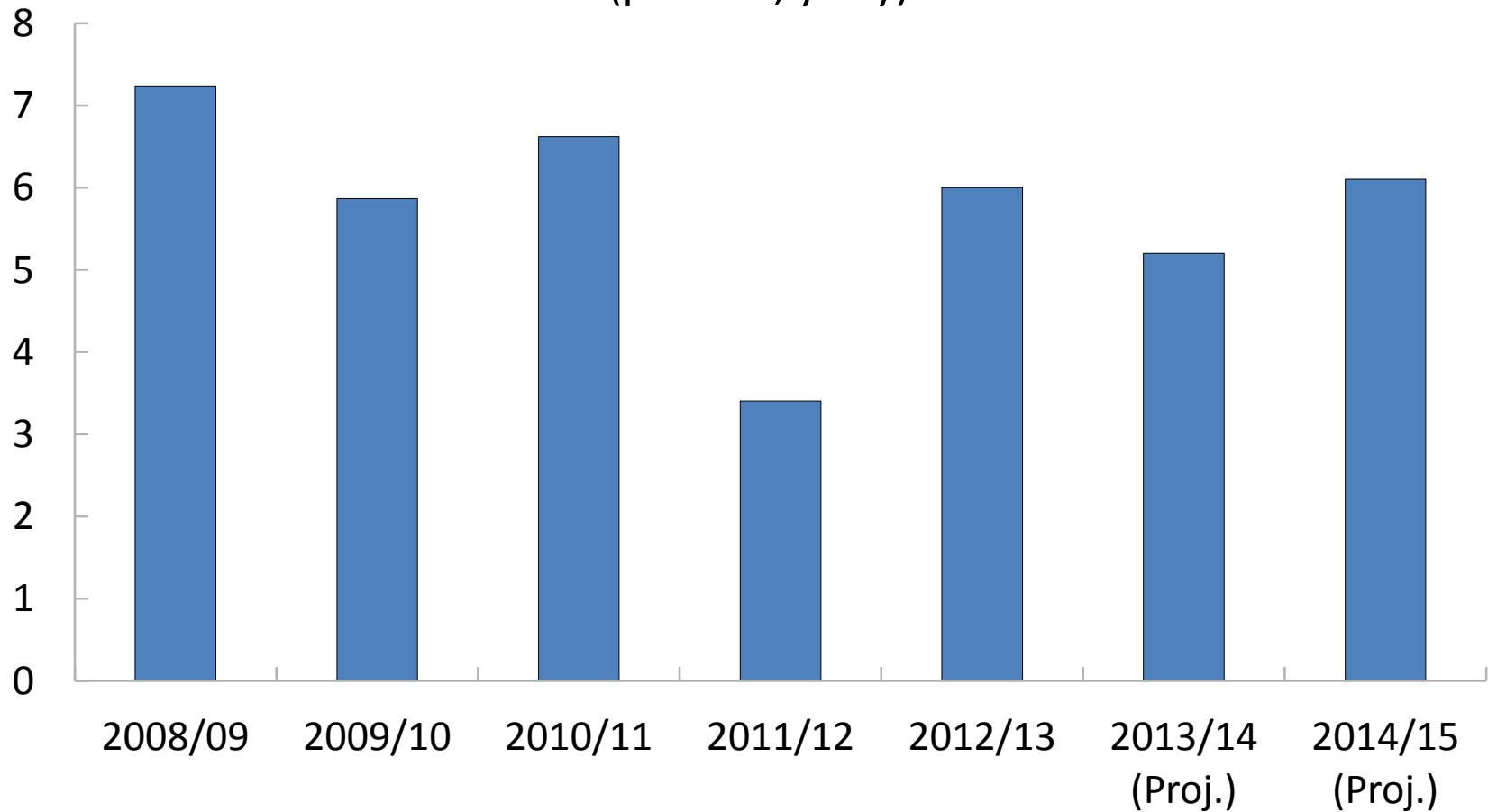
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# Real GDP Growth – Robust but declining

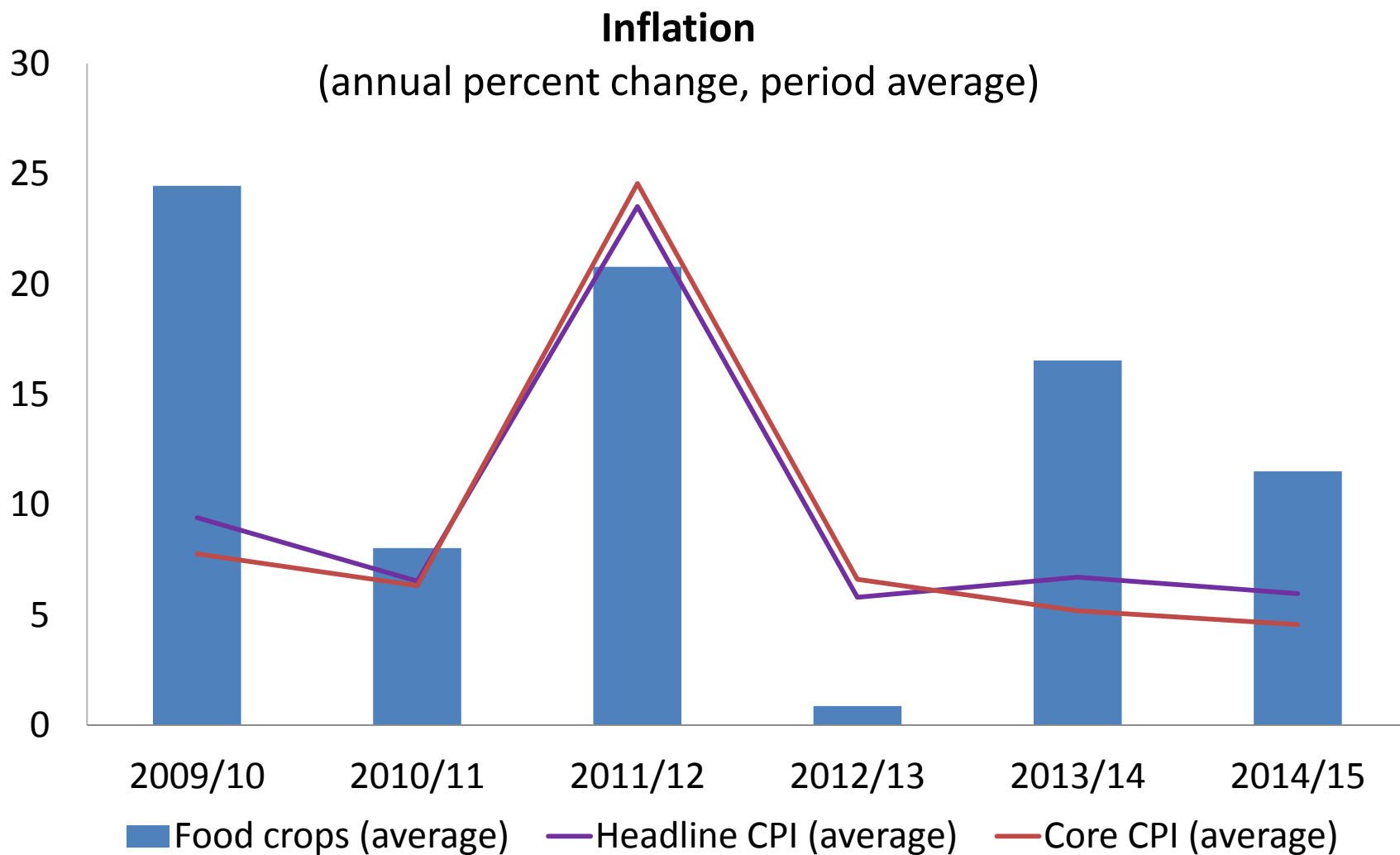


**GDP growth**  
(percent, y-o-y)

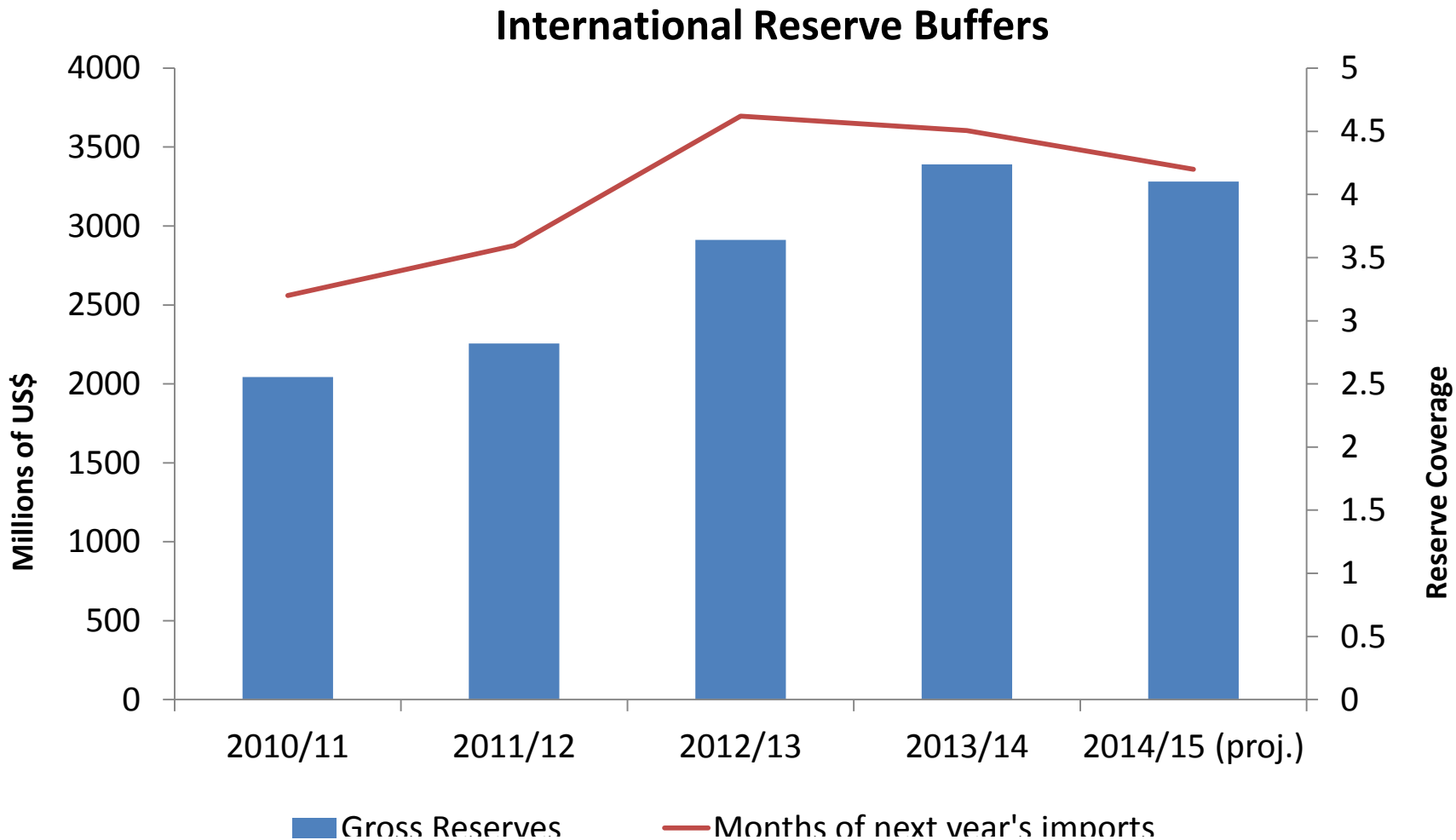




# Inflation – Low and under control



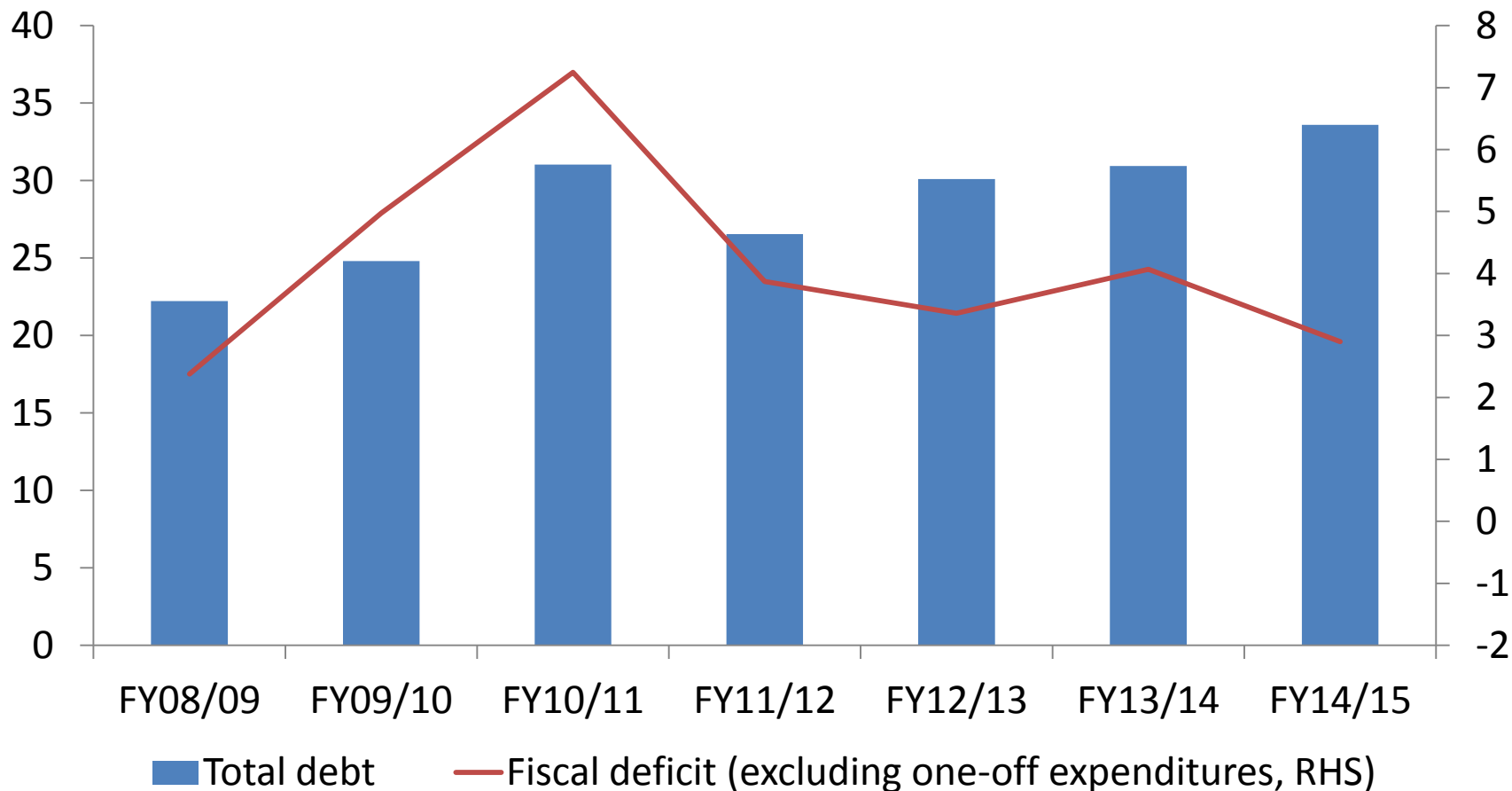
# External sector – A sound reserve position



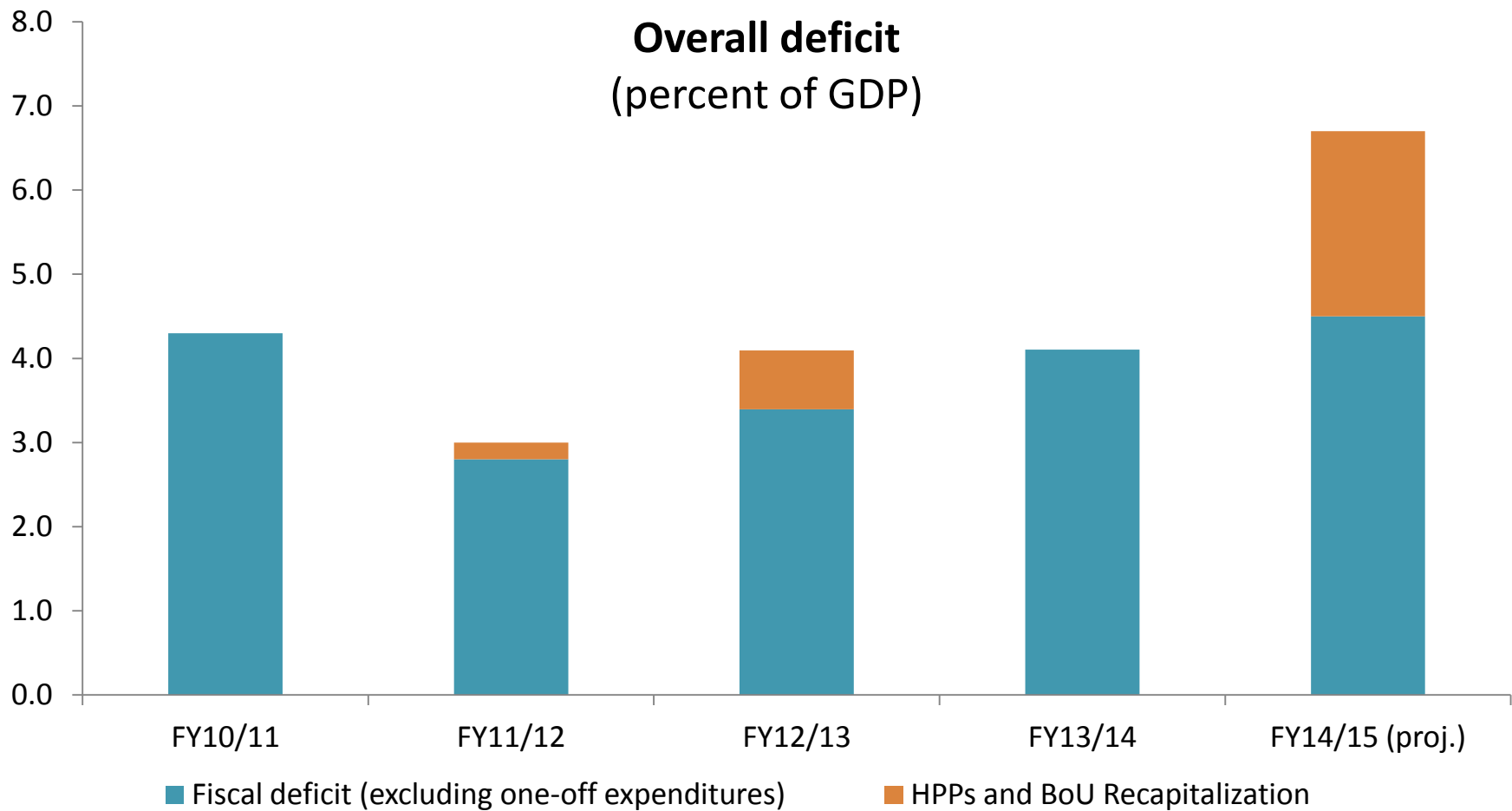
# Fiscal policy – Low level of debt and improved fiscal position



**Public debt and overall deficit**  
(percent of GDP)



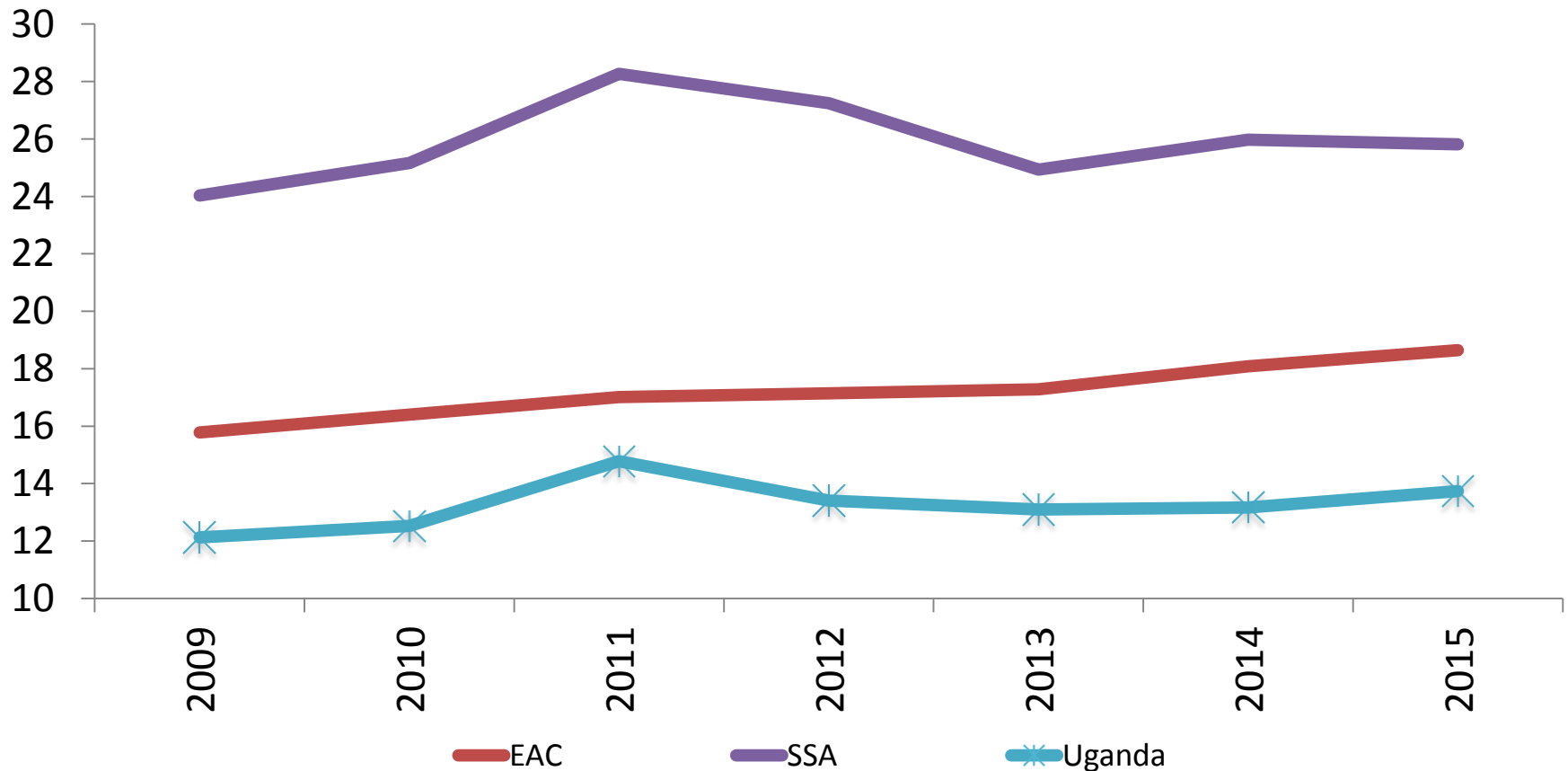
# Increasing fiscal deficits support infrastructure investment



# Revenue collection – Continues to lag behind

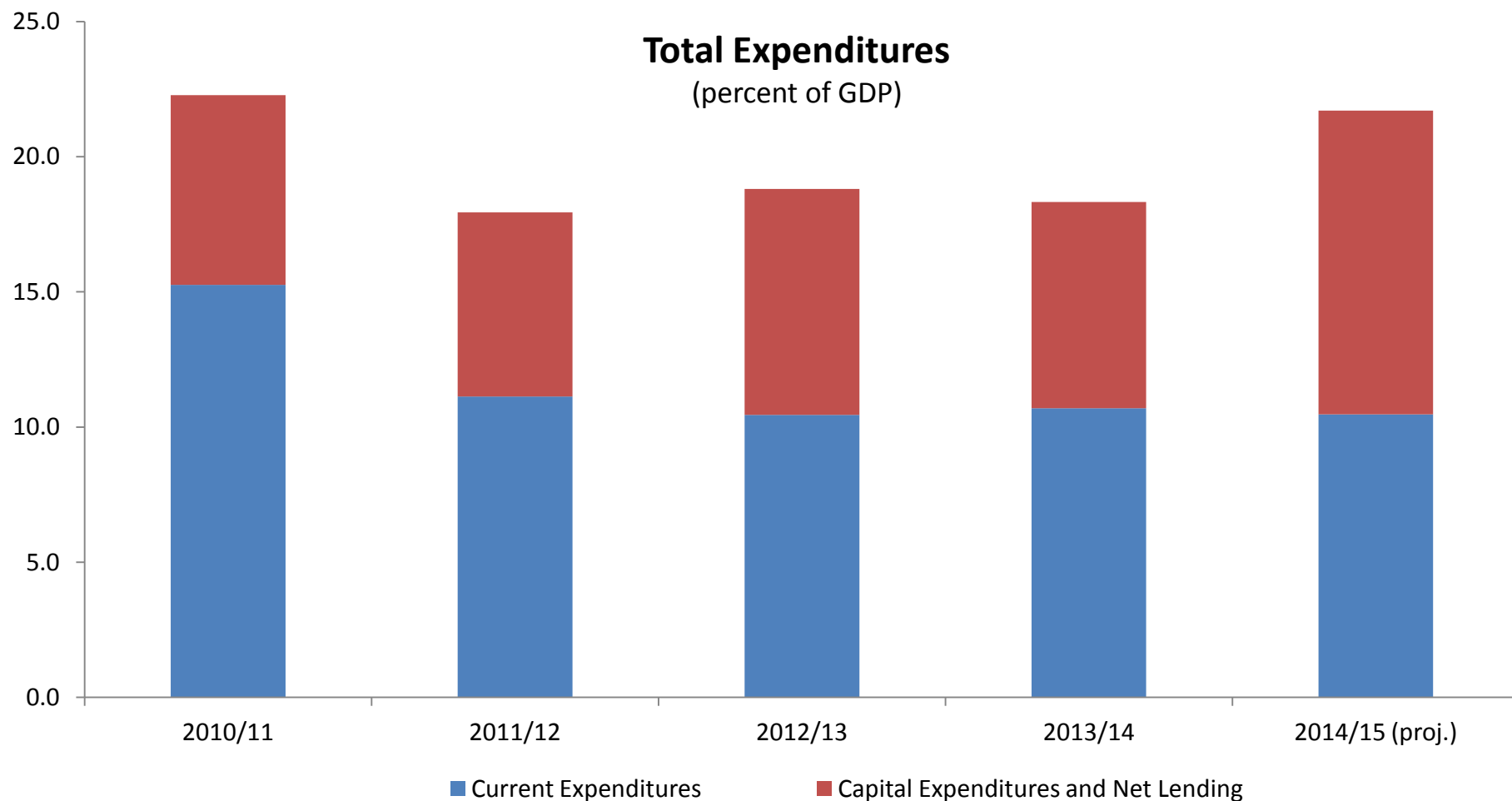


Total revenue  
(percent of GDP)





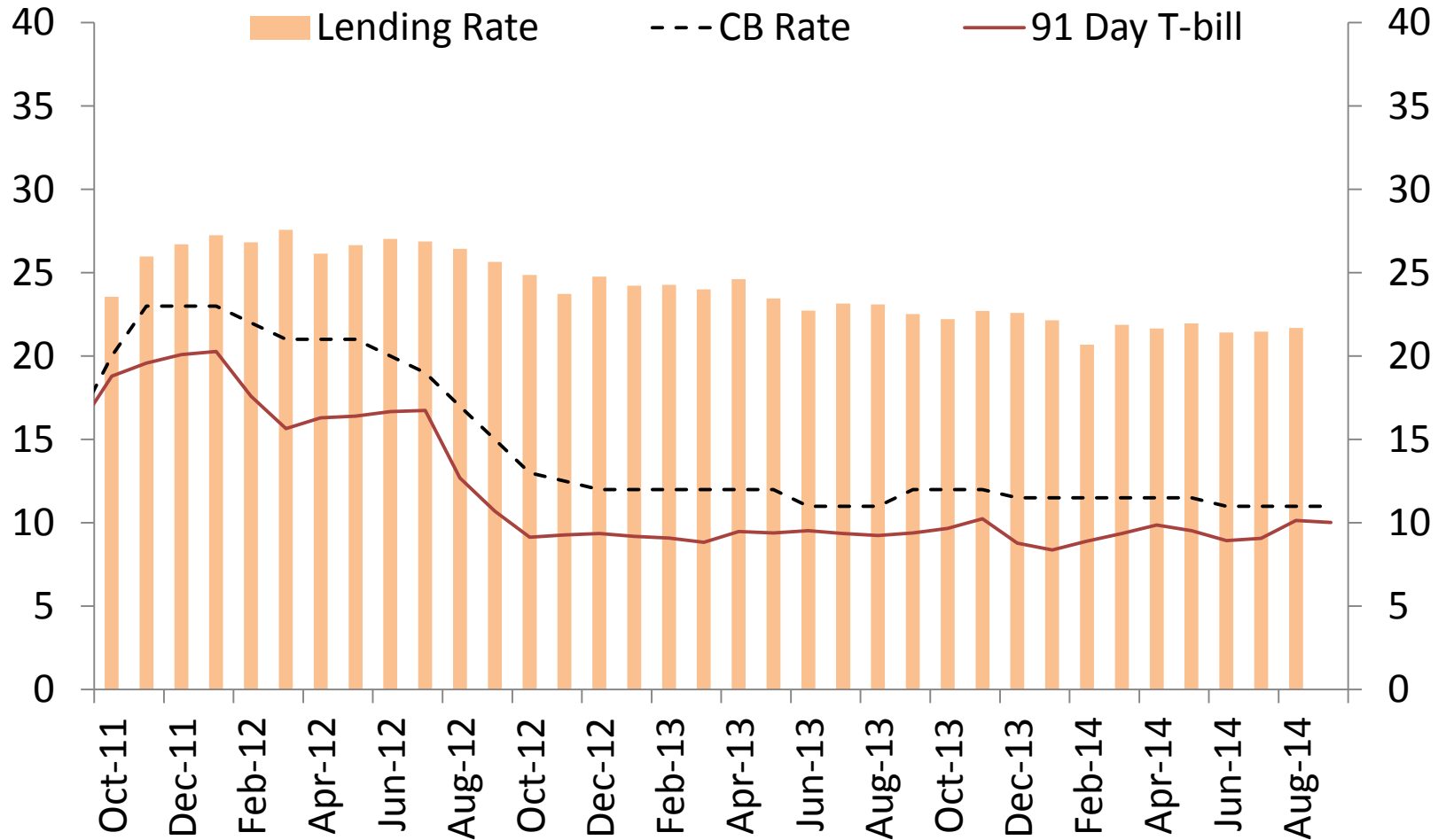
# Expenditures – Emphasis on capital



# Lending rates: declining but still high



## Interest Rate Structure





# Economic policy mix – Main messages



## ➤ Fiscal policy

- New budget eliminated key tax exemptions and provided for reasonable expenditure: Adhere to the budget, avoid arrears and resist spending pressures
- Service delivery and infrastructure investment are priorities: Improve the quality of expenditure and invest wisely

## ➤ Monetary policy

- Low and stable inflation benefit all: Preserve it and if possible encourage a reduction of interest rates in support of private sector credit expansion
- The market determined exchange rate is an anchor of the inflation targeting framework: Limit central bank interventions to building up international reserves or avoiding excessive volatility



## Stronger institutions – A key need

- Better public financial management
    - PFM bill to improve budget credibility, integrity and predictability
    - Single Treasury Account to strengthen cash management and transparency
  
  - An independent central bank
    - Fully capitalized and accountable for ensuring low and stable inflation
  
  - A financial sector that contributes to development
    - Not only sound, but deep and inclusive
  
  - Efficient management of envisaged large infrastructure projects
-



Thank You!

The online edition of the  
*Regional Economic Outlook  
for sub-Saharan Africa*  
is now available at  
[www.imf.org](http://www.imf.org)