

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

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Outline



- World and Regional Outlook
- Uganda: Developments and Prospects

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- Uganda: Developments and Prospects



Uneven recovery in the global economy

- Global growth projected to increase slightly in 2015 and 2016
 - 2015 forecast: 3.5 percent
 - 2016 forecast: 3.8 percent
- Uneven prospects across the main countries and regions
 - Improving prospects in advanced economies
 - Lower growth in emerging market and developing economies mainly due to weaker prospects in large and oil exporting countries

Global growth to remain moderate...



- **In advanced economies**
 - Favorable policy mix and supportive financial conditions.

- **Emerging and developing economies**
 - Higher external demand in advanced economies and still-favorable financial conditions.

...facing a more balanced distribution of risks.



- **Upside:**
 - Greater global demand boost from lower oil prices
 - More conservative growth baseline for emerging markets
- **Downside:**
 - Financial market turmoil and risk of capital flow reversals
 - Stagnation risks in the euro area and Japan
 - Geopolitical risks remain high

A major shock has materialized and altered near-term challenges in Africa



Staying the Course

World Economic and Financial Surveys

Regional Economic Outlook

Sub-Saharan Africa
Staying the Course

OCT 14

INTERNATIONAL MONETARY FUND

Navigating Headwinds

World Economic and Financial Surveys

Regional Economic Outlook

Sub-Saharan Africa
Navigating Headwinds

APR 15

INTERNATIONAL MONETARY FUND

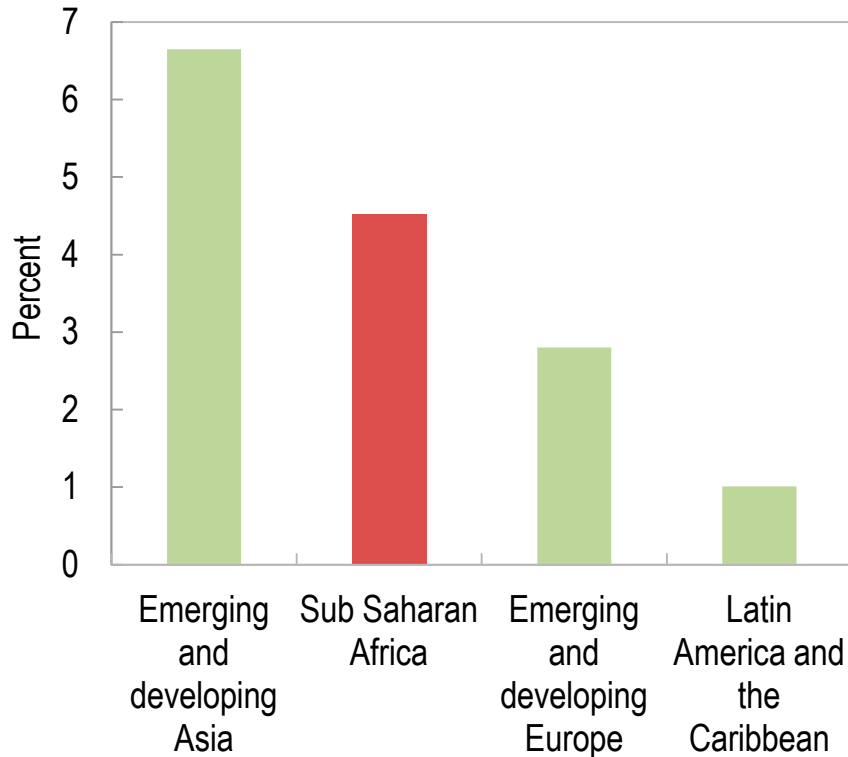
Growth in the region remains solid...



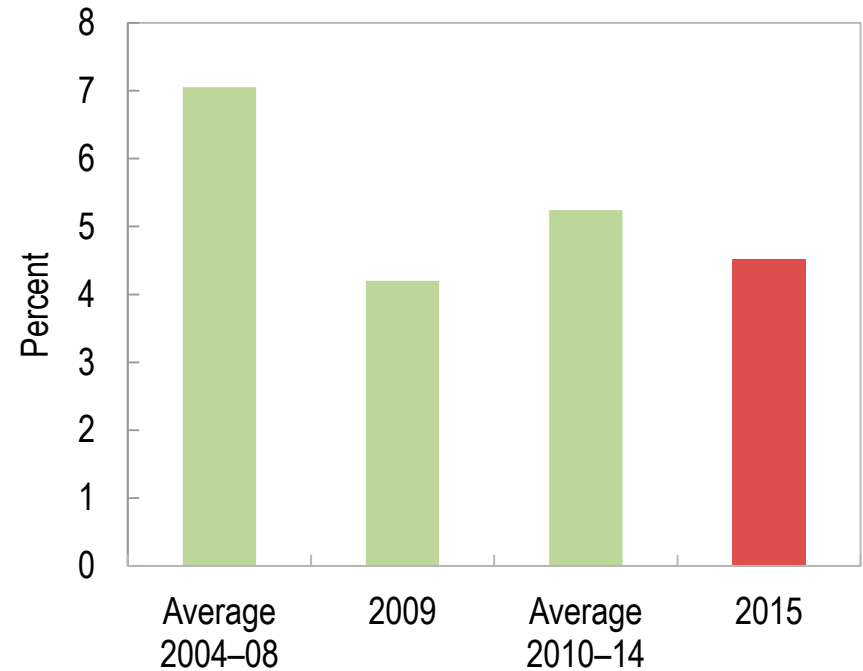
Still the 2nd fastest growing region of the world

... but at the lower end of the range by recent standards

Selected Regions: Real GDP Growth, 2015



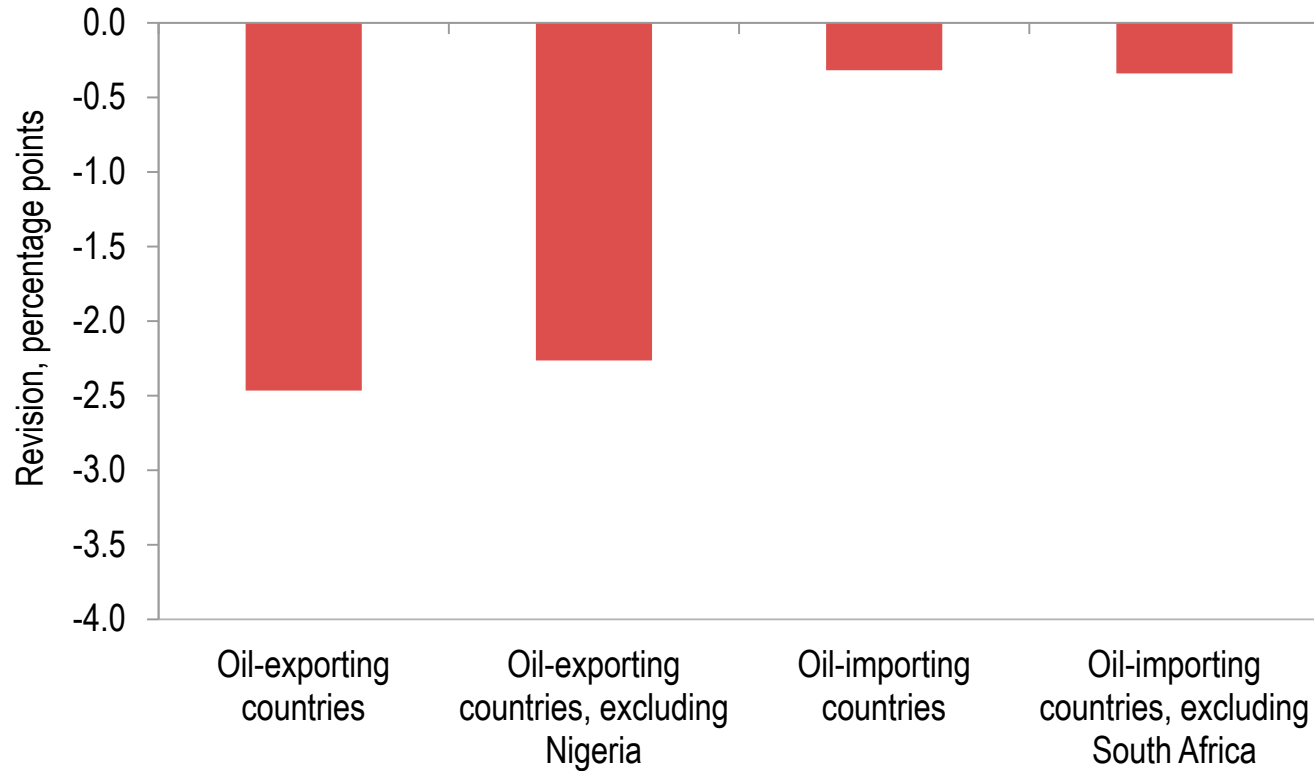
Sub-Saharan Africa: Real GDP Growth, 2004–15



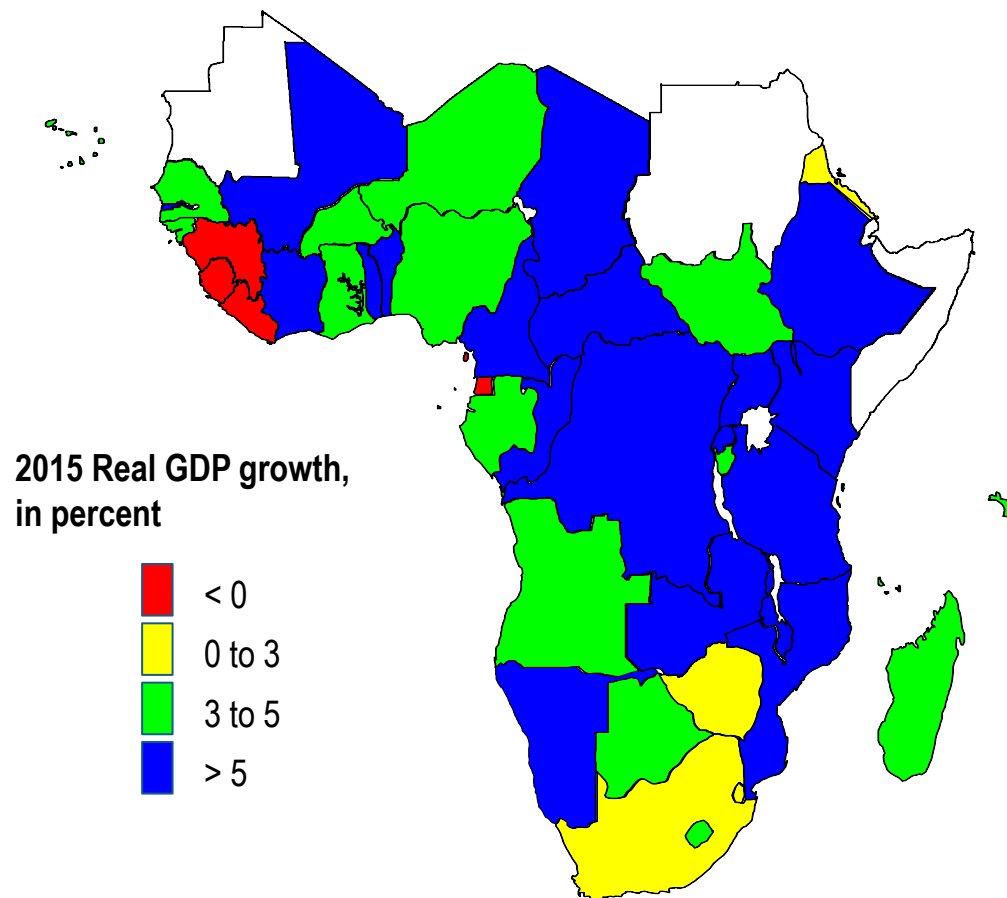
...but with heterogeneous downward revisions since October.



**Sub-Saharan Africa: Real GDP Growth
Projection in 2015, Change from October 2014**



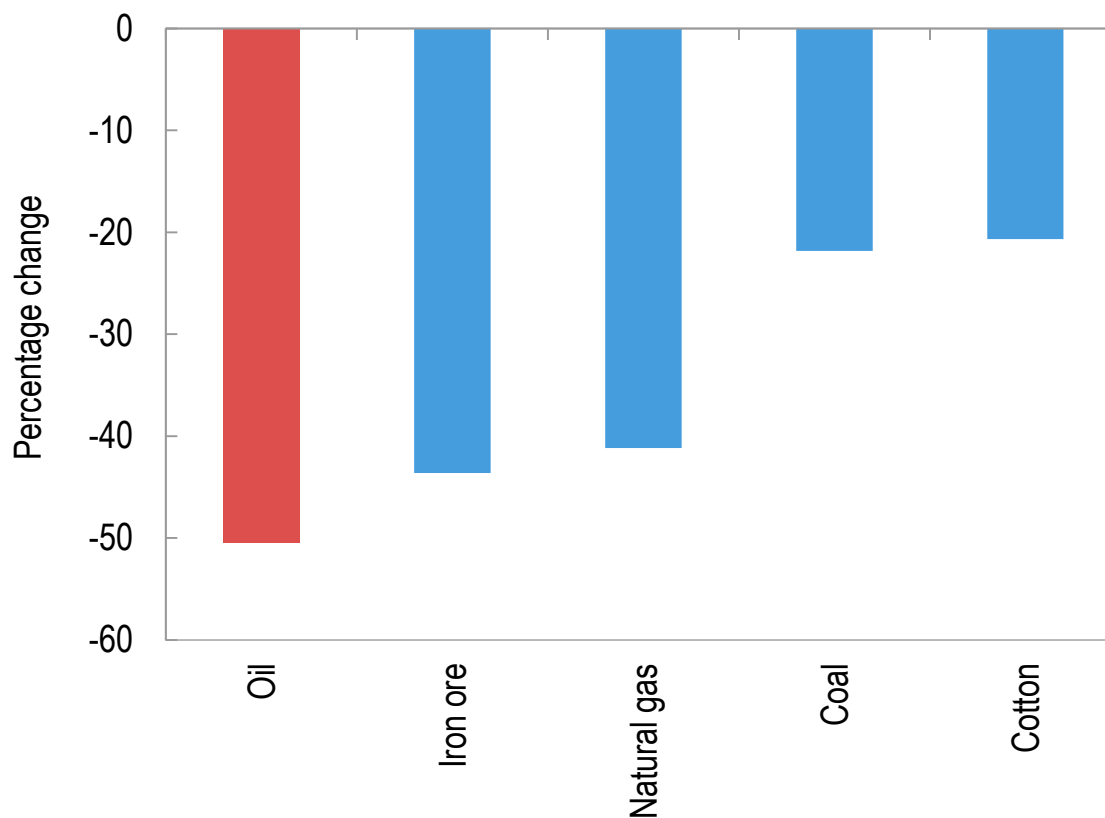
A large part of the region will experience solid growth in excess of 5 percent in 2015



Global prices of oil, and that of other commodities, have plunged...



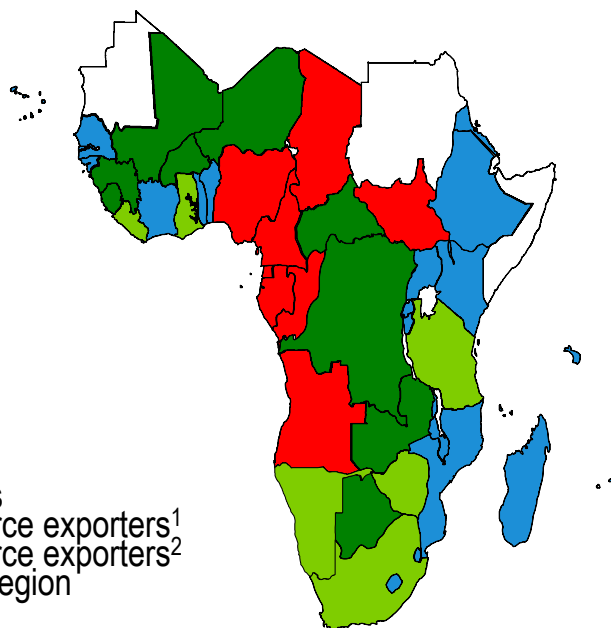
**Selected Global Commodity Prices,
Change from June 2014–March 25, 2015**



...with a significant adverse impact on oil exporters, but only marginally benefiting oil importers.



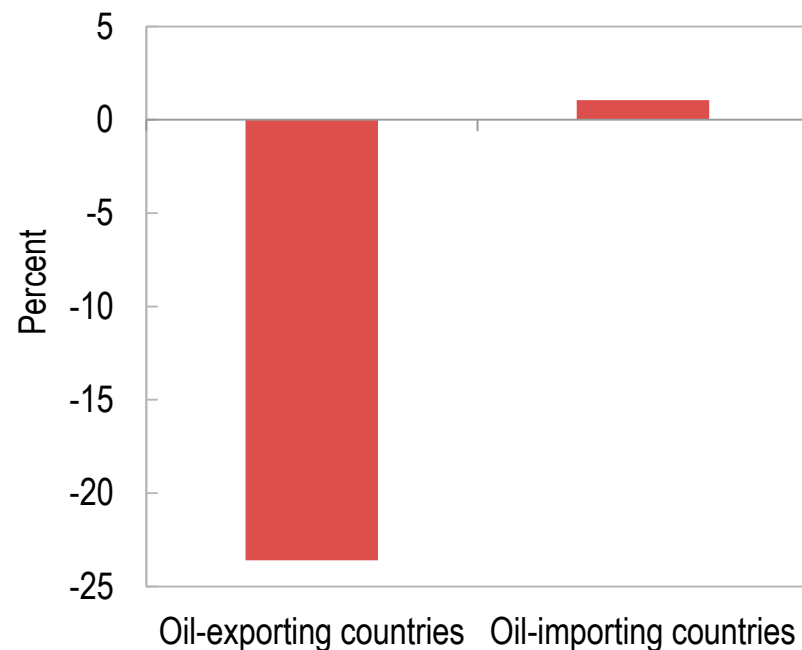
Sub-Saharan Africa: Commodity Exporters



¹ Countries for which nonrenewable resource exports are between 25 percent and 50 percent of goods exports.

² Countries for which nonrenewable resource exports are over 50 percent of goods exports.

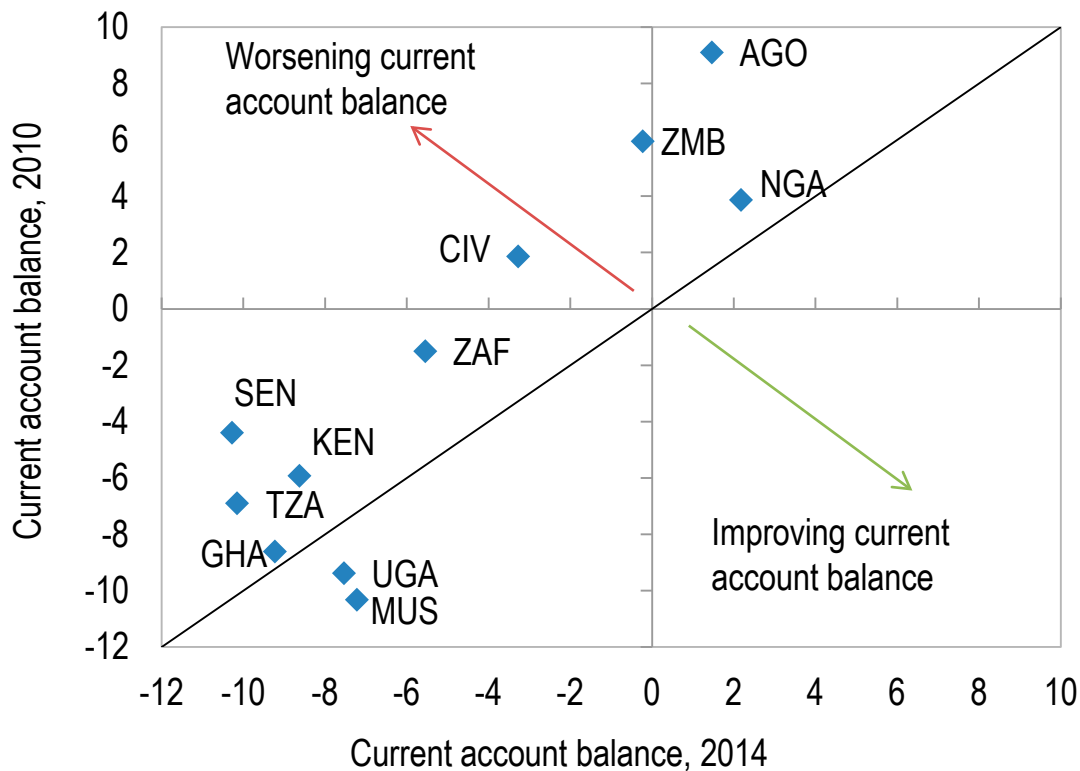
Sub-Saharan Africa: Terms of Trade Growth, 2015



Macroeconomic imbalances have been increasing in frontier markets



**Sub-Saharan African Market Access Countries:
Current Account Balance in Percent of GDP**

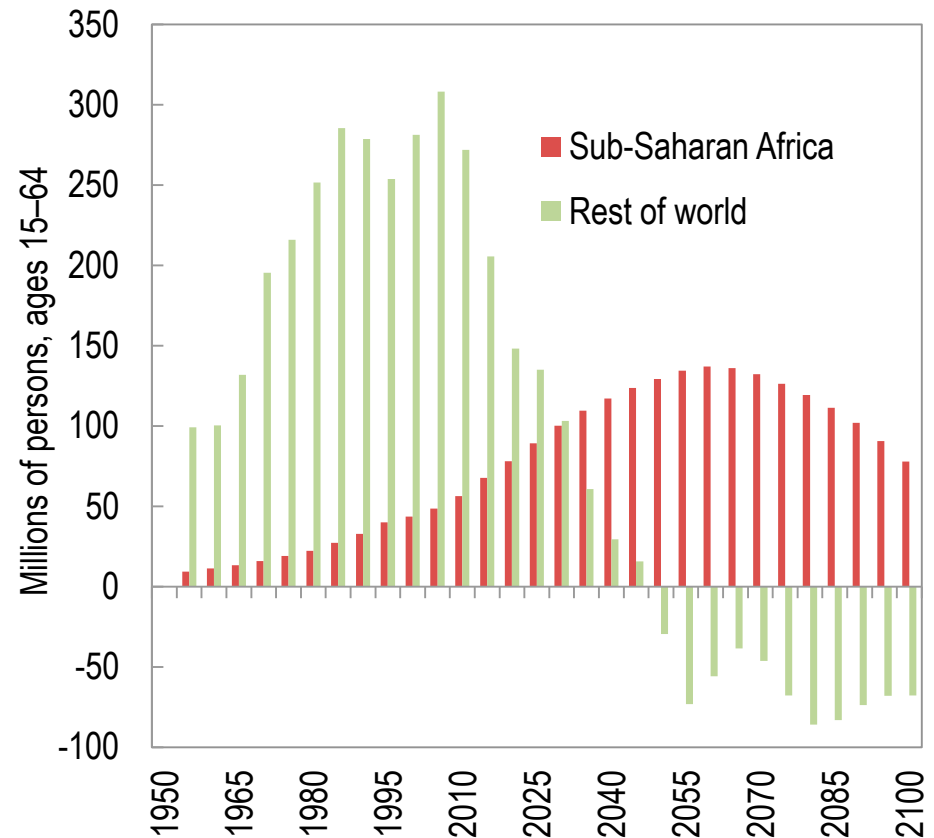


The region's medium-term prospects are bright, but good policies are needed to reap the dividends



- Structural transformation is needed to diversify and sustain high and inclusive growth:
 - Address the infrastructure deficit while preserving debt sustainability
 - Promote policies for export growth

Change in Global Working-Age Population



Outline



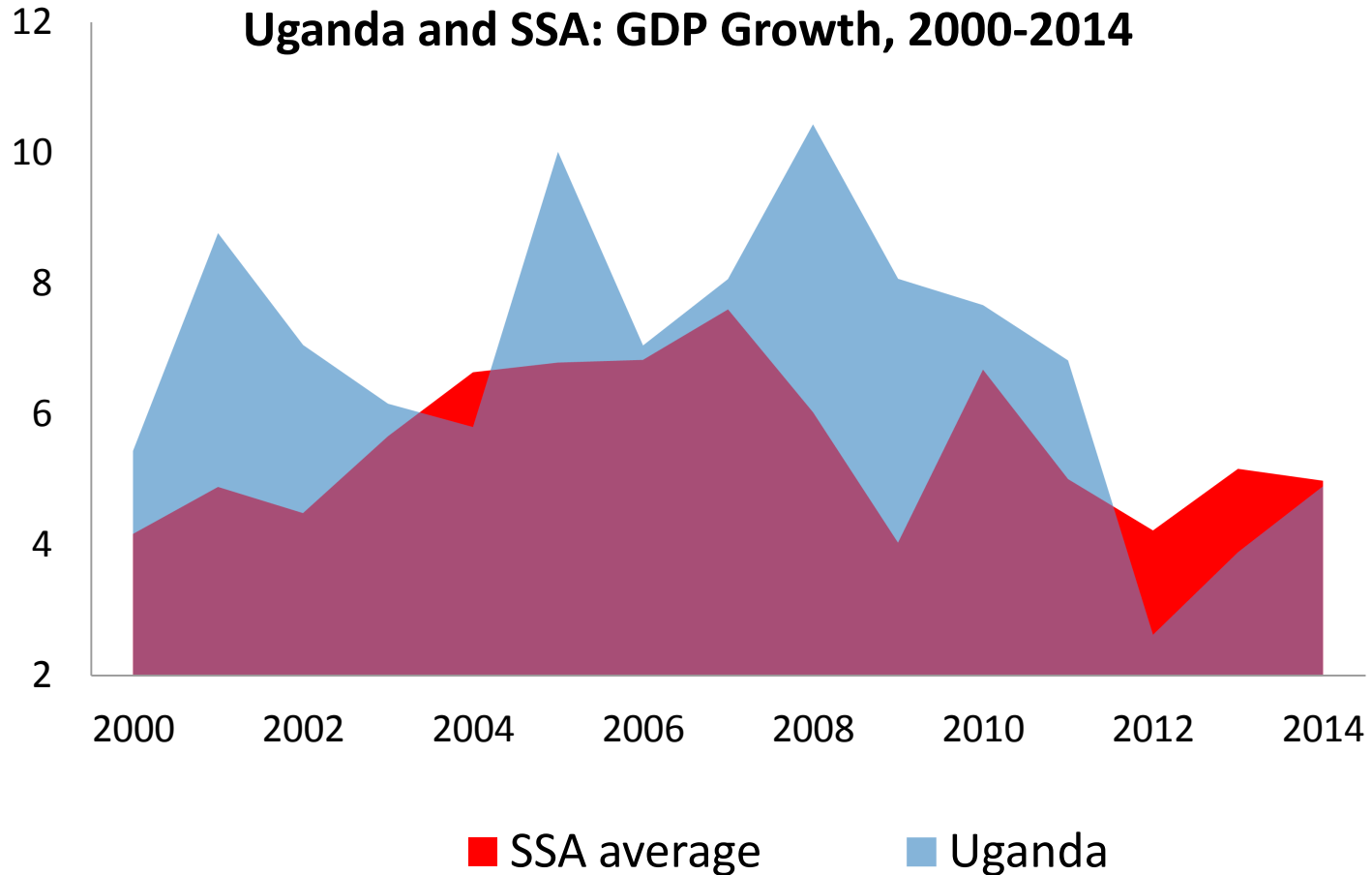
- World and Regional Outlook
- Uganda: Developments and Prospects

Main topics

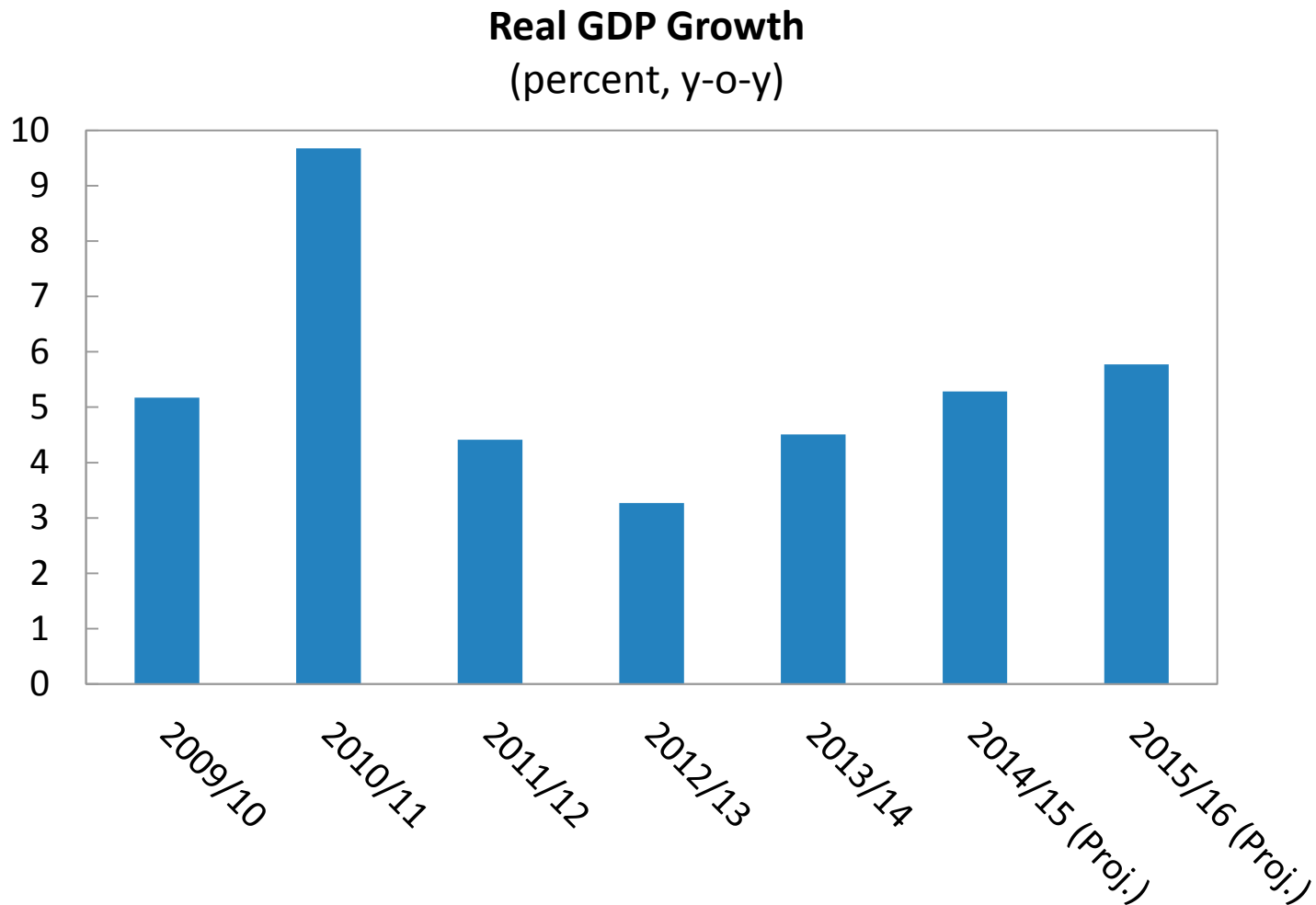


- ✓ Growth, inflation, and external sector indicators
- ✓ Monetary and financial sector policies
- ✓ Medium term prospects and challenges
- ✓ Fiscal policy

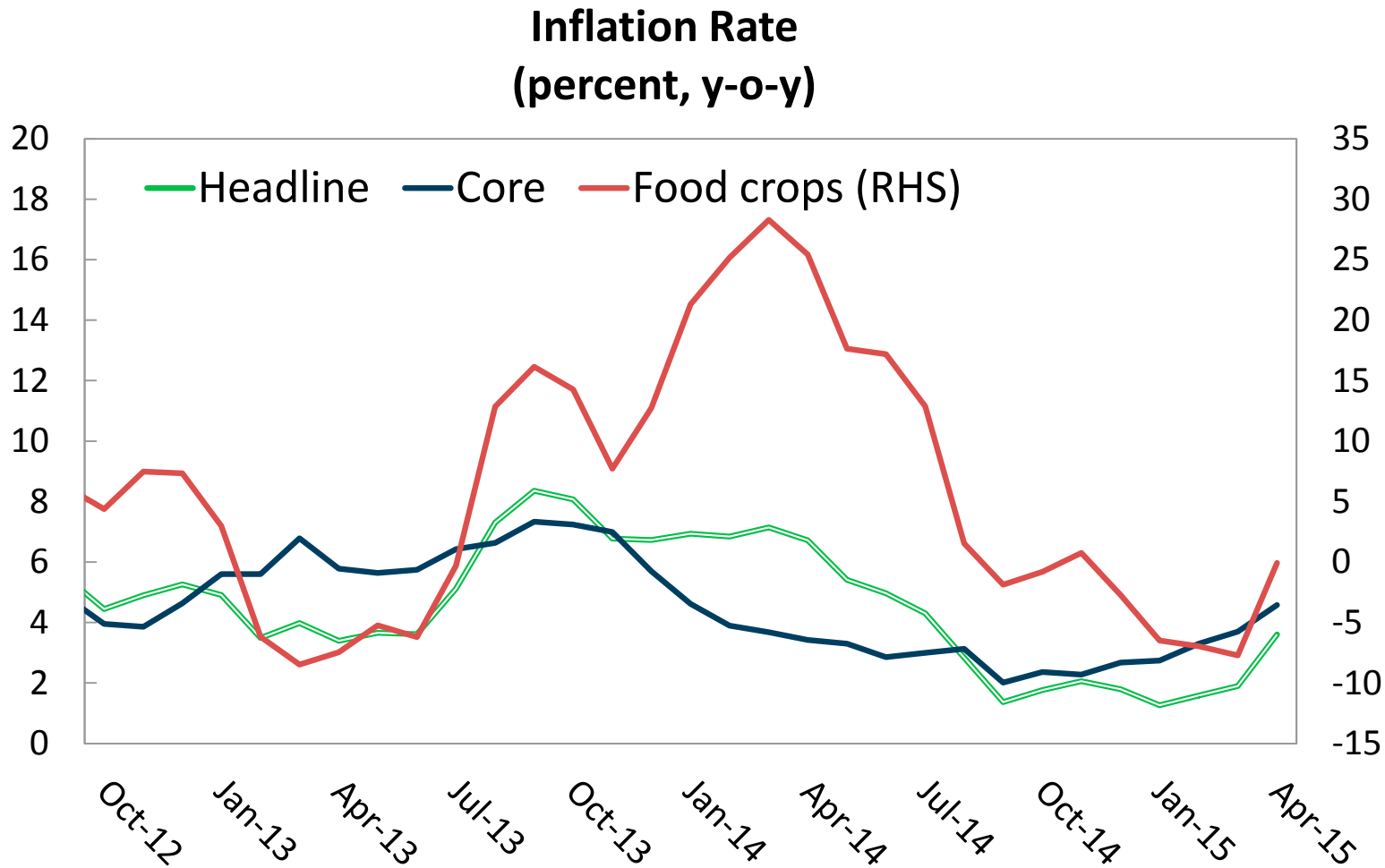
Real GDP growth generally above Sub-Saharan Africa average



Real GDP growth - gradually increasing



Inflation – low and under control

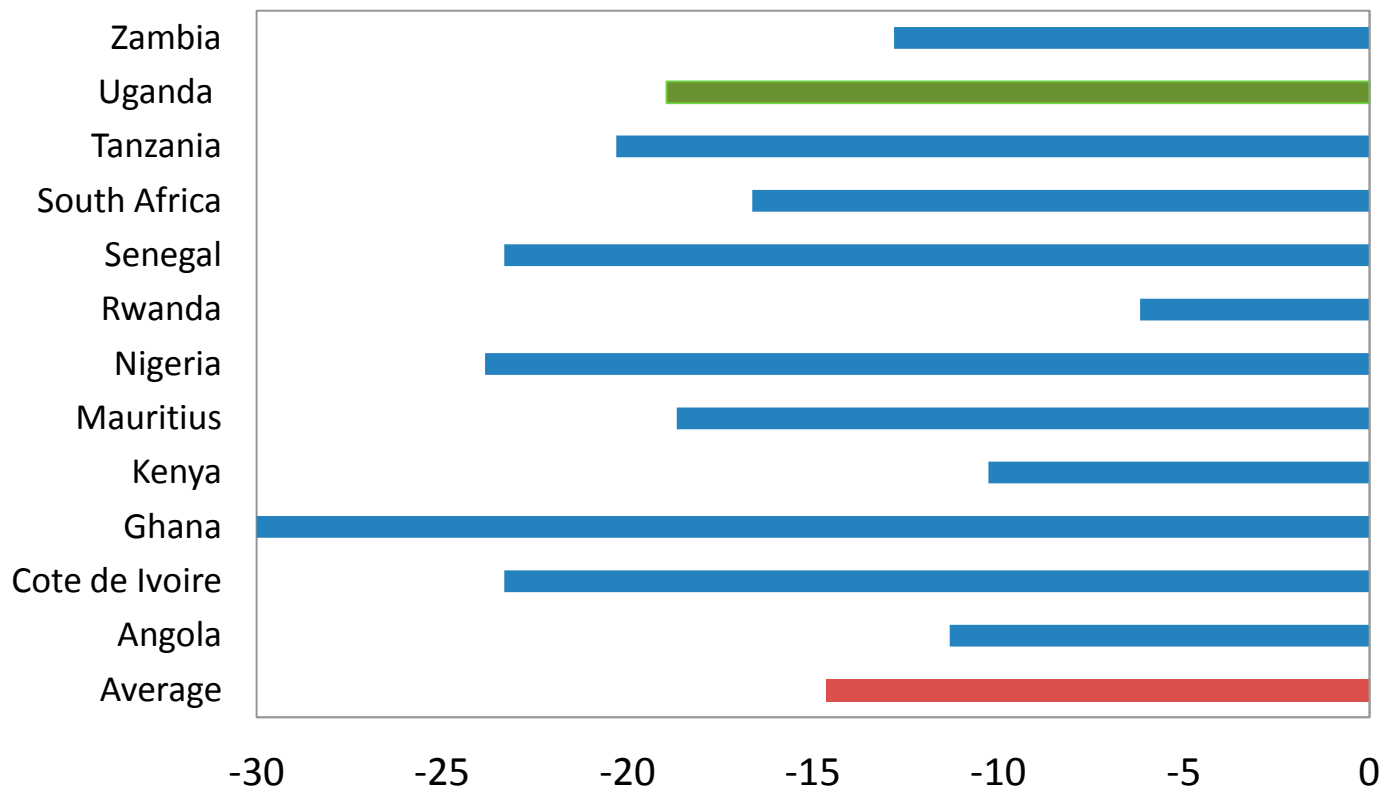


Exchange Rate – significant depreciation



Change in Exchange Rate (NC/USD) for Select SSA Countries

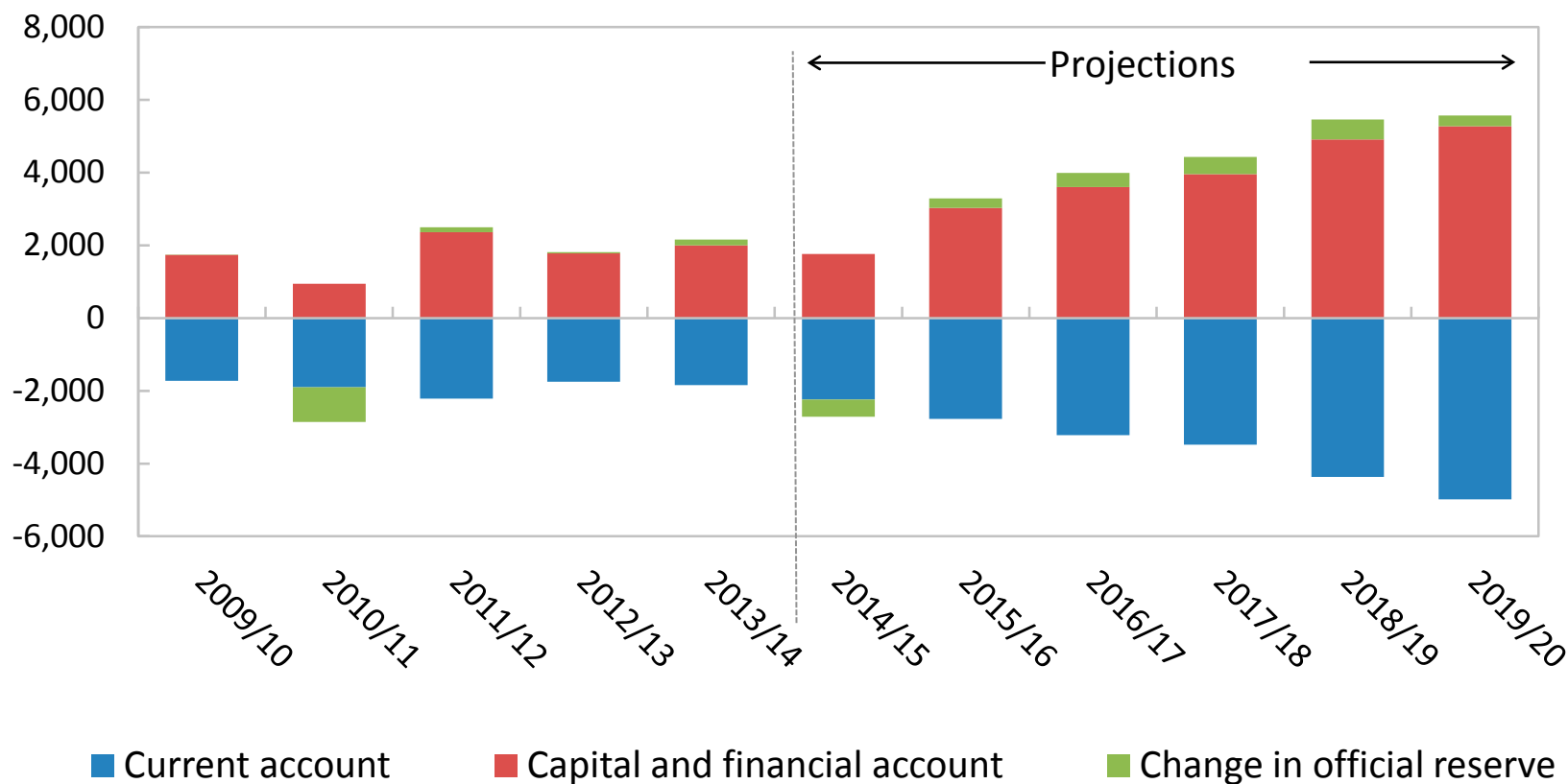
Change from previous year as of May 11, 2015 (percent)





External situation – increasing current account deficit

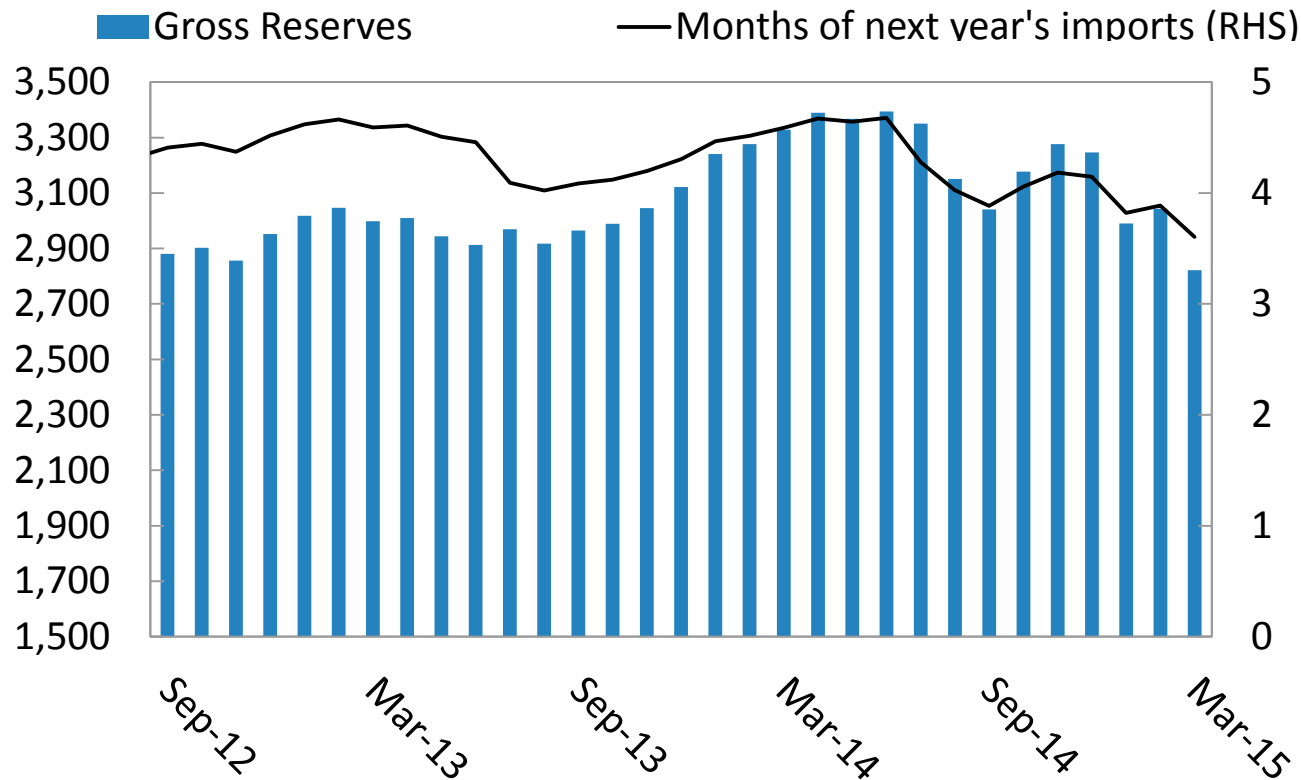
External Situation
(millions US\$)



Adequate international reserve buffers



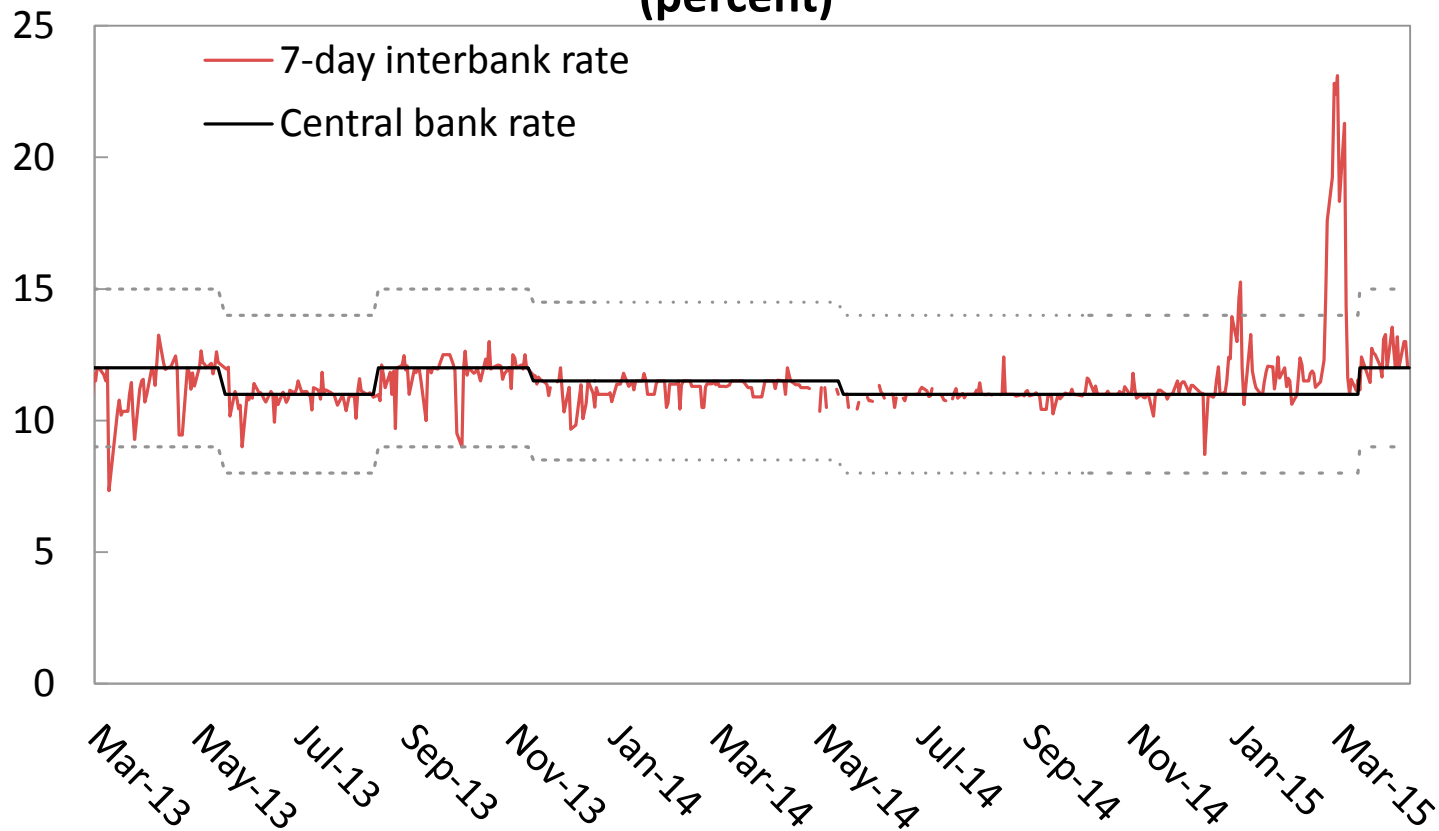
**International Reserve Buffers
(millions of US\$ and months of imports)**



Inflation targeting – effective interest rate signaling.



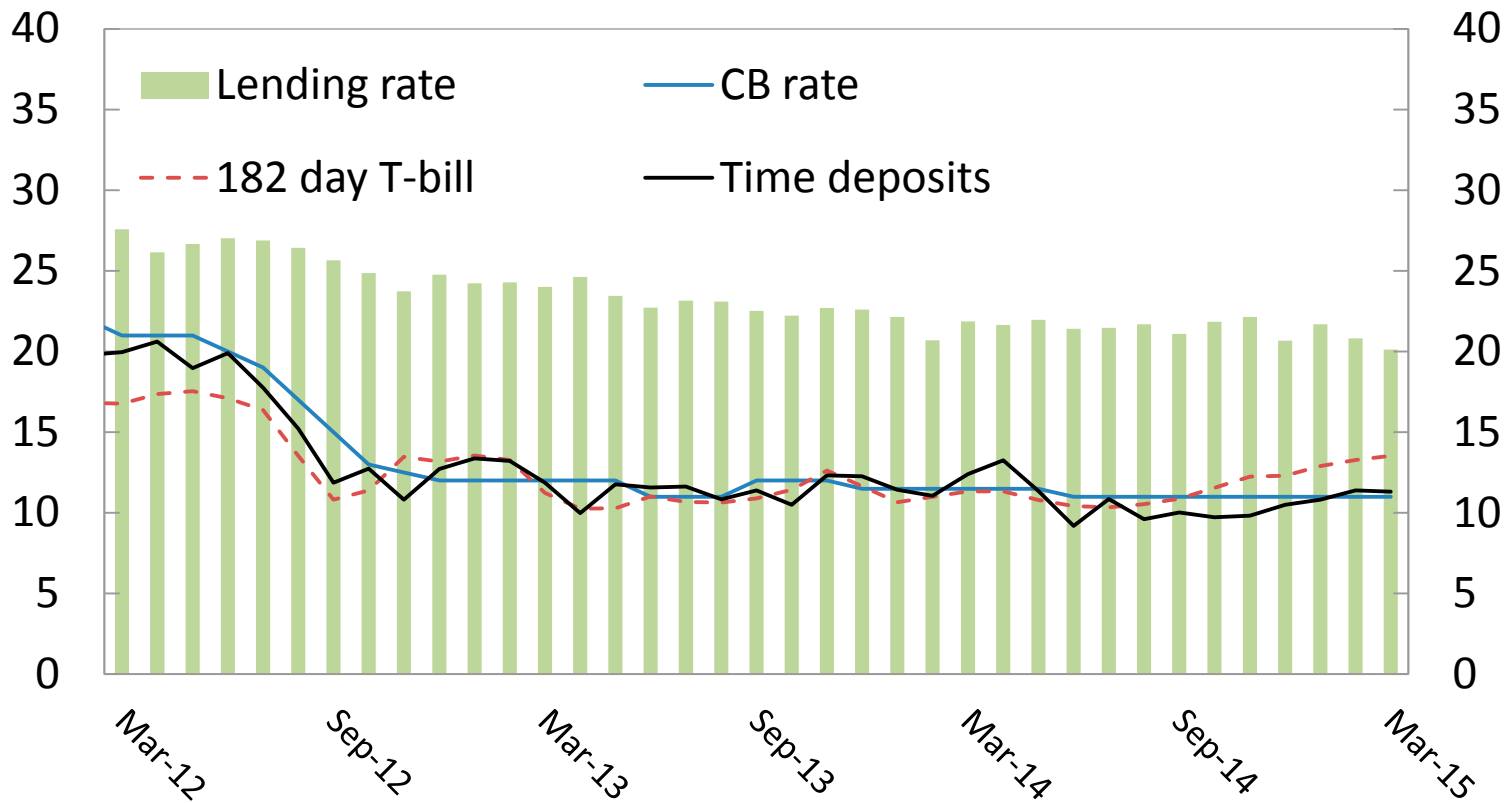
**Central Bank and Interbank Rate
(percent)**



...but lending rates remain high



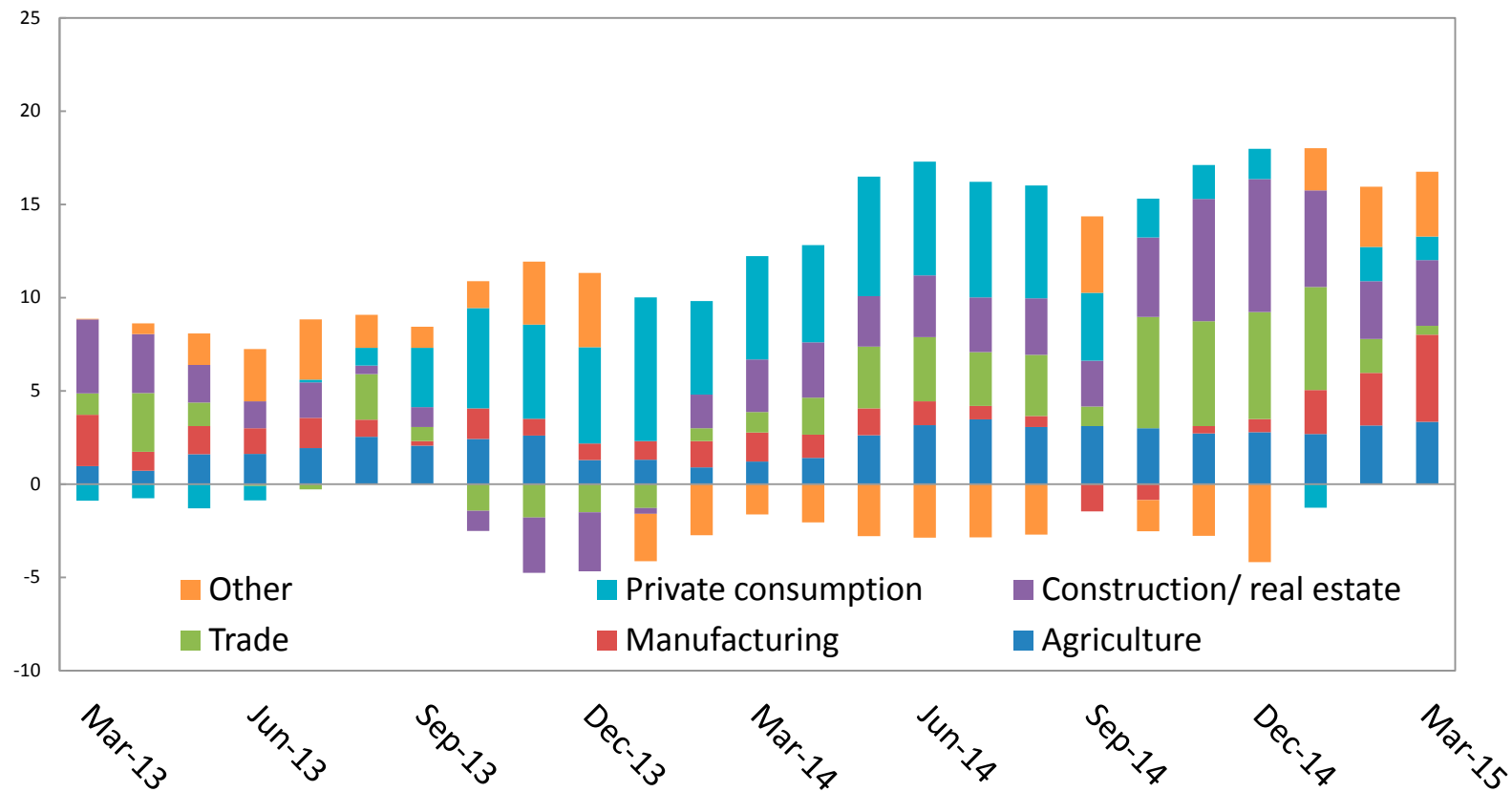
Interest Rate Structure (percent)



Private sector credit - growing



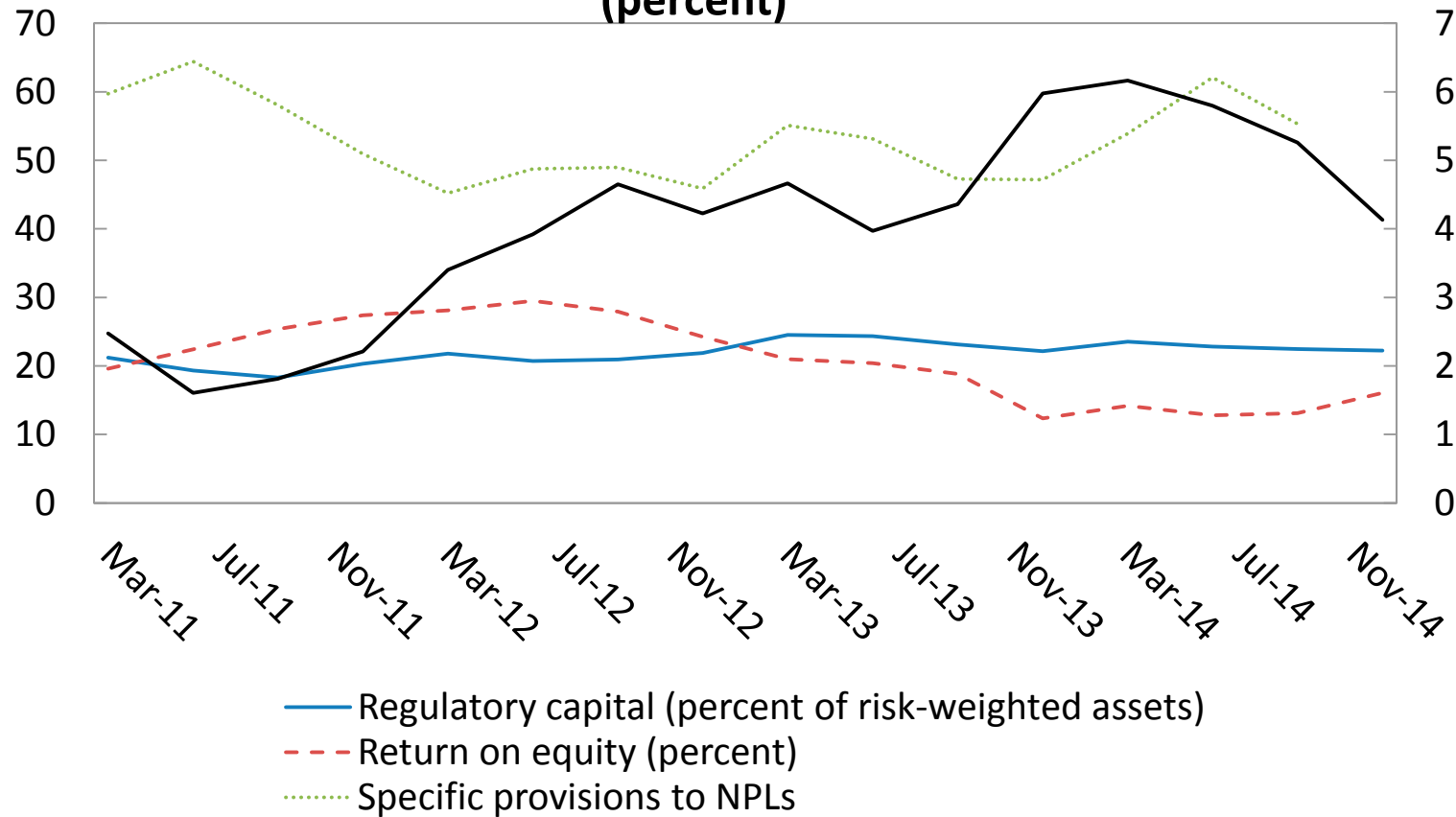
Contribution to Private Credit Growth
(percent)



A sound financial system



**Selected Financial Sector Indicators
(percent)**



Broadly favorable medium-term prospects...



- ✓ Oil production
- ✓ Regional integration
- ✓ Improvements in infrastructure



...but challenges need to be addressed

- Ensuring sustainable and inclusive growth
 - ✓ Economic diversification and competitiveness gains
 - ✓ Social protection to expand growth benefits to all
- Enhancing resilience
- Continuing building institutions and strengthening governance

Fiscal policy in Uganda



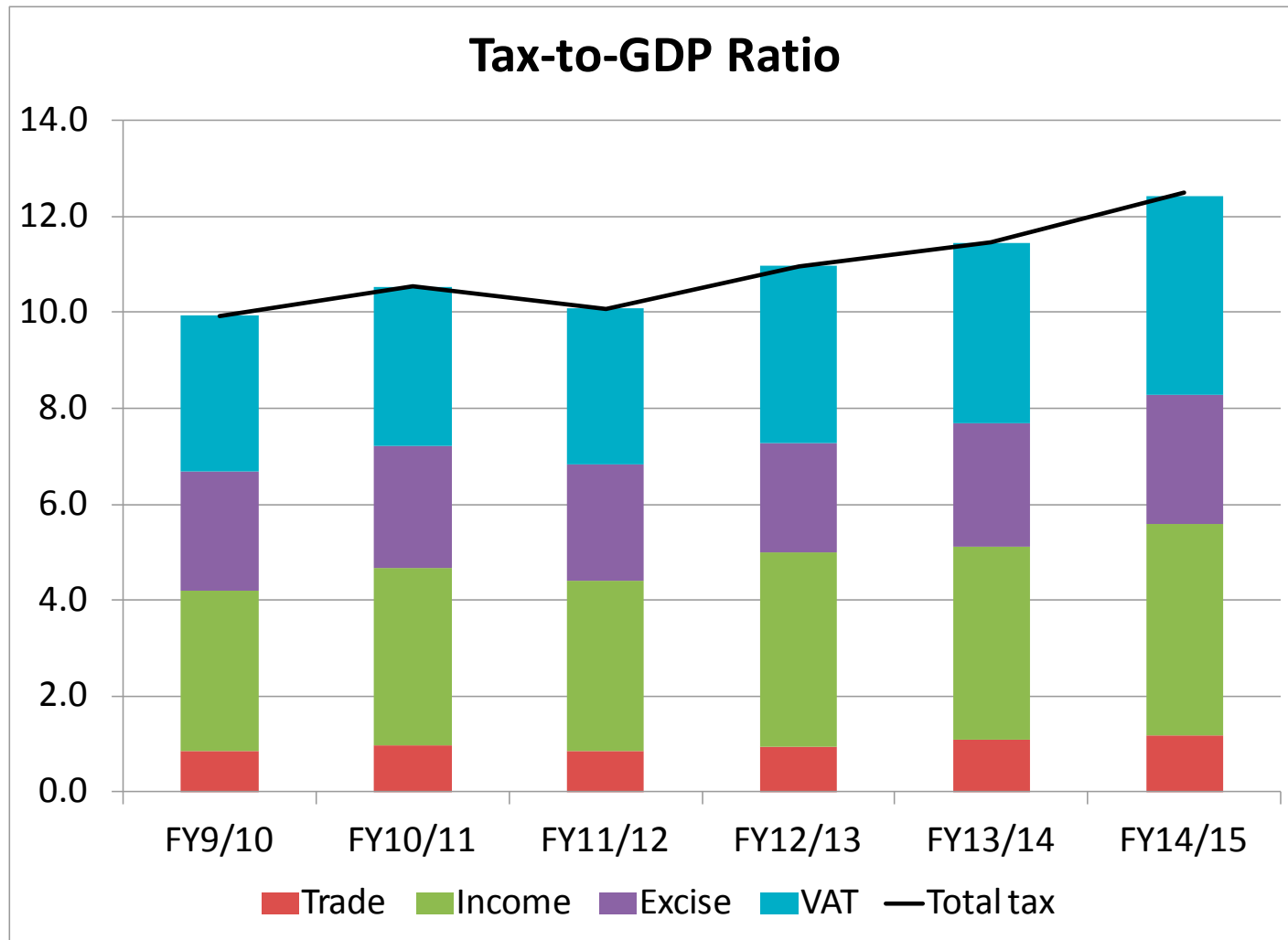
- Recent developments
- Budget FY2015/16
- Medium term outlook
- Risks

Recent fiscal performance has been positive.



- FY 2014/15 budget is poised to increase revenues substantially
- Expenditures appear to be largely on track
- Domestic debt issuance should remain at budget levels

Tax-to-GDP ratio – increasing substantially

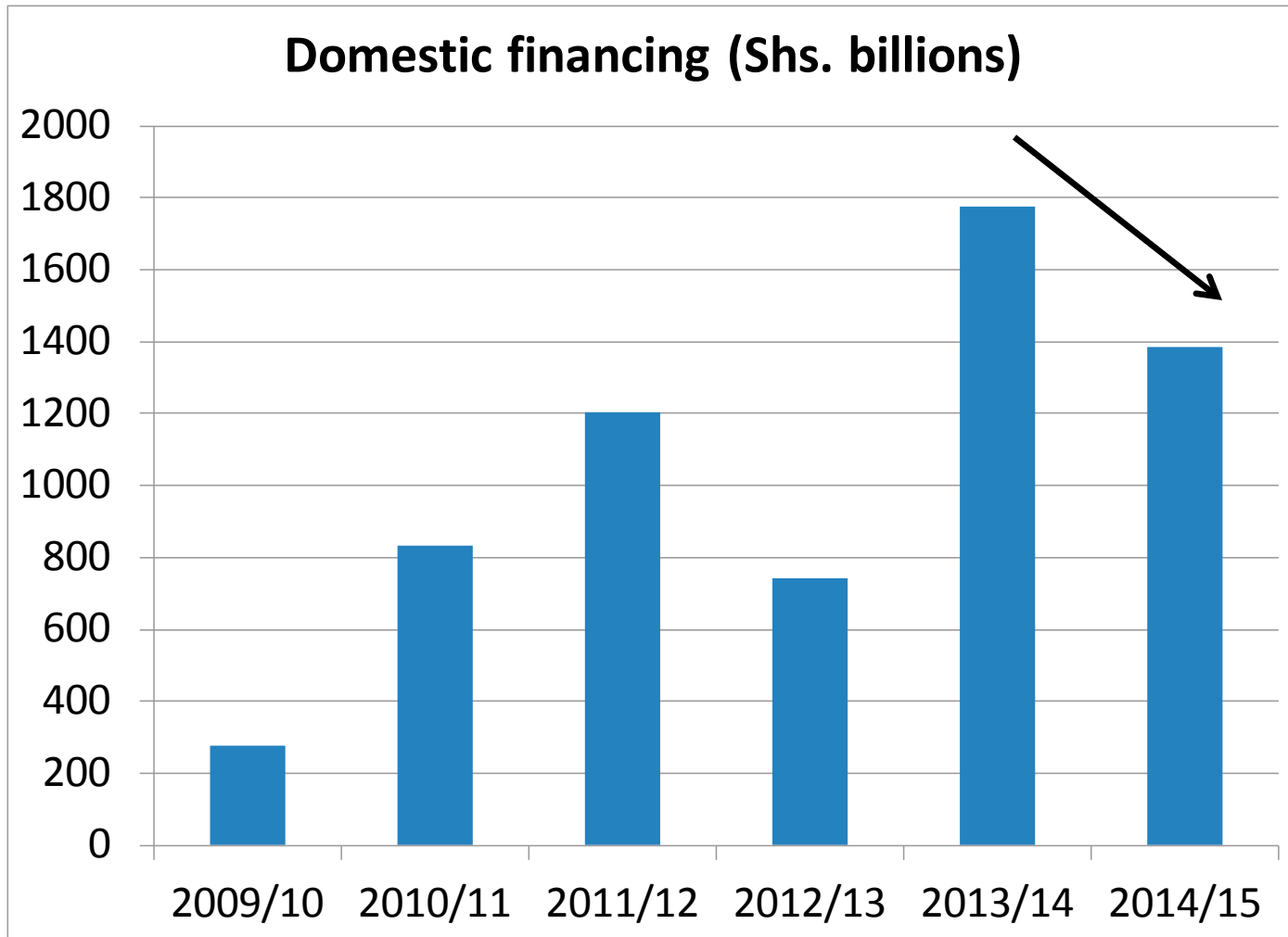


Expenditures - in line with budget estimates



- The supplementary budget has not increased spending to date
- Large savings from elimination of ghost workers
- Reallocation from capital to current spending

Domestic financing - lower than last fiscal year



Fiscal policy will be expansionary in 2015/16



- Overall deficit is expected to increase as large infrastructure projects get under way
- The deficit that excludes infrastructure spending will remain unchanged
- Domestic debt is projected to be in line with previous year

Fiscal expansion will continue in the medium term

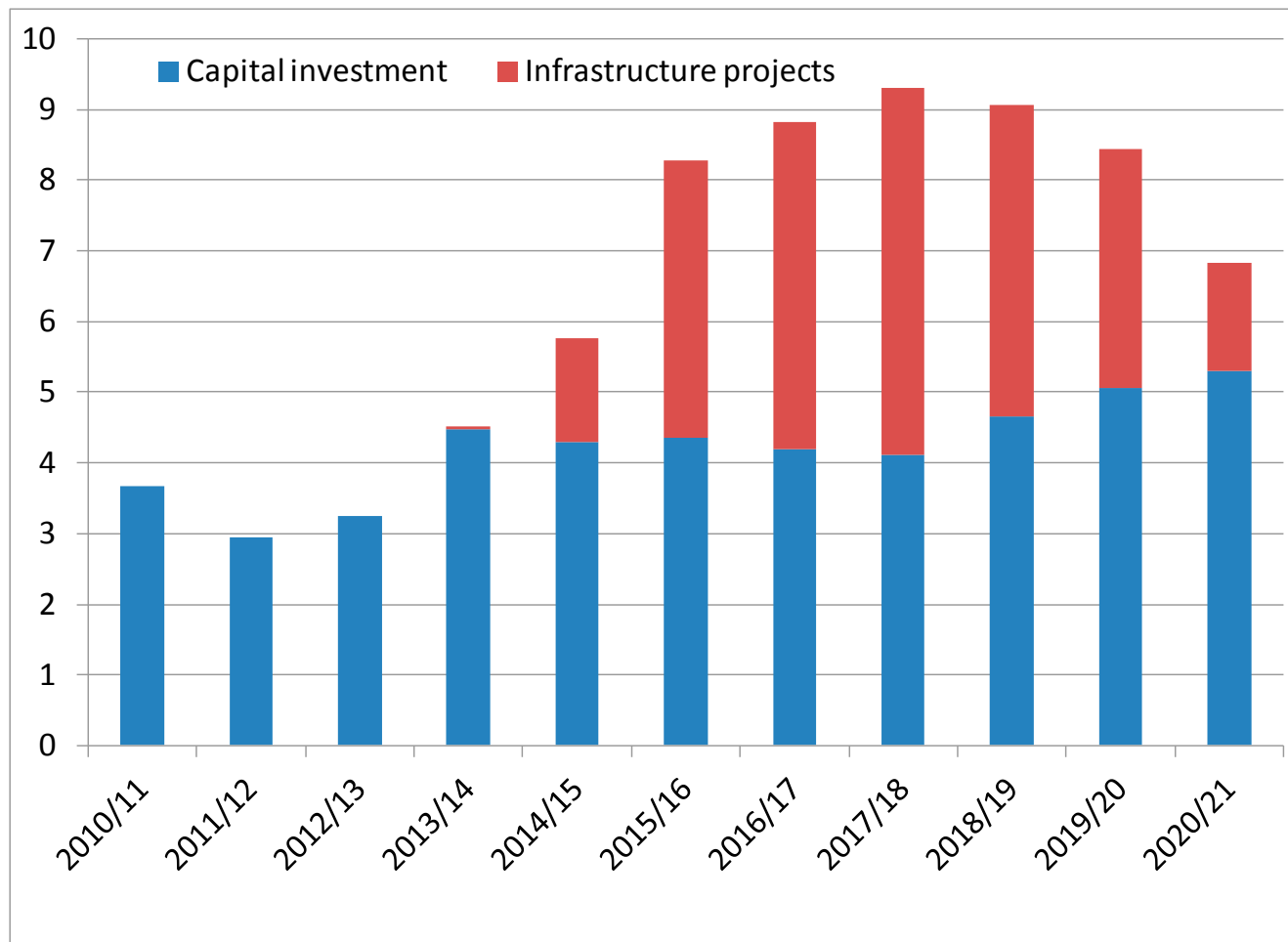


Overall deficit is projected to increase substantially due to infrastructure investment

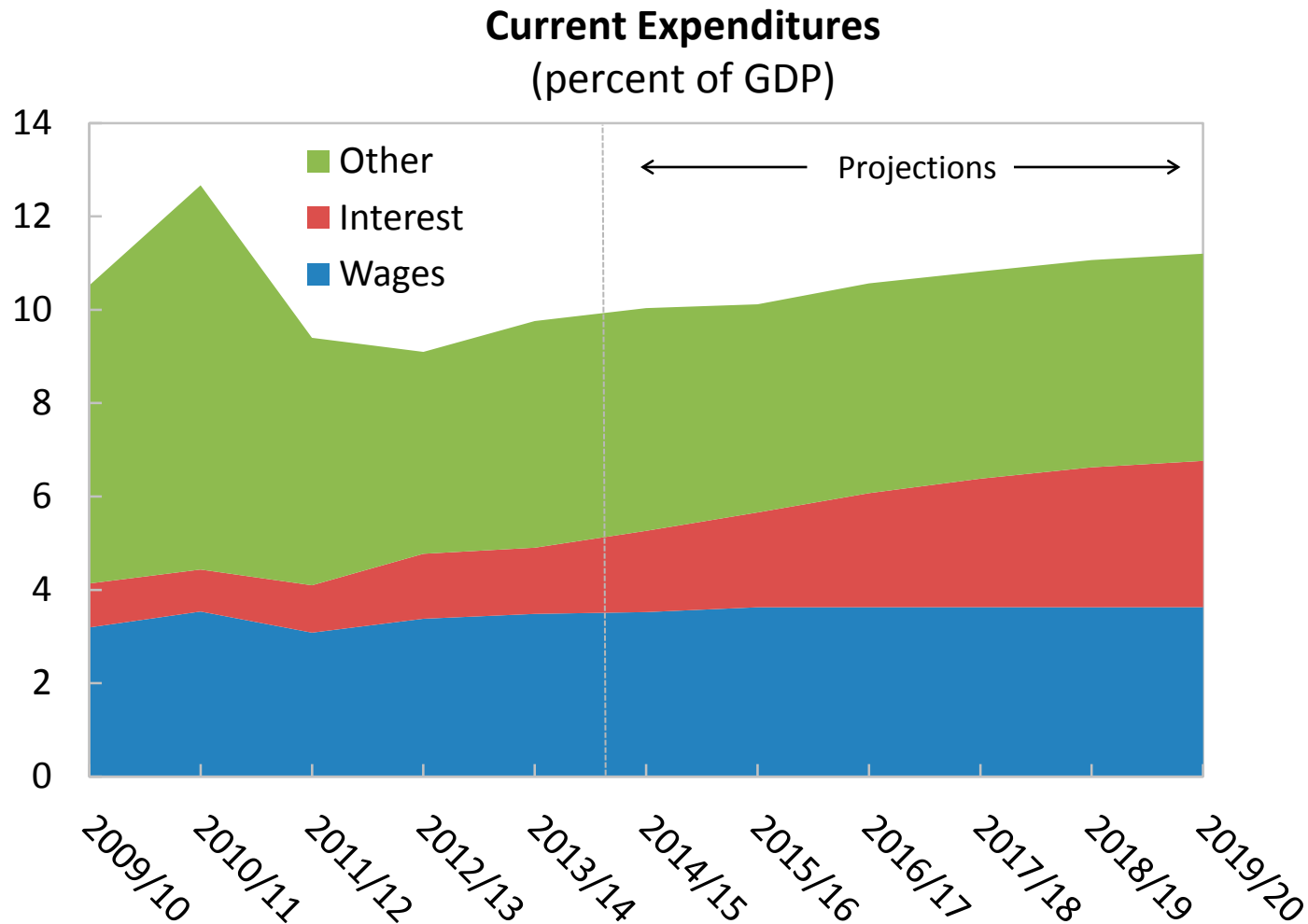
An increase in revenues is needed to make space for this investment

External and domestic debt are projected to increase but the debt level is sustainable

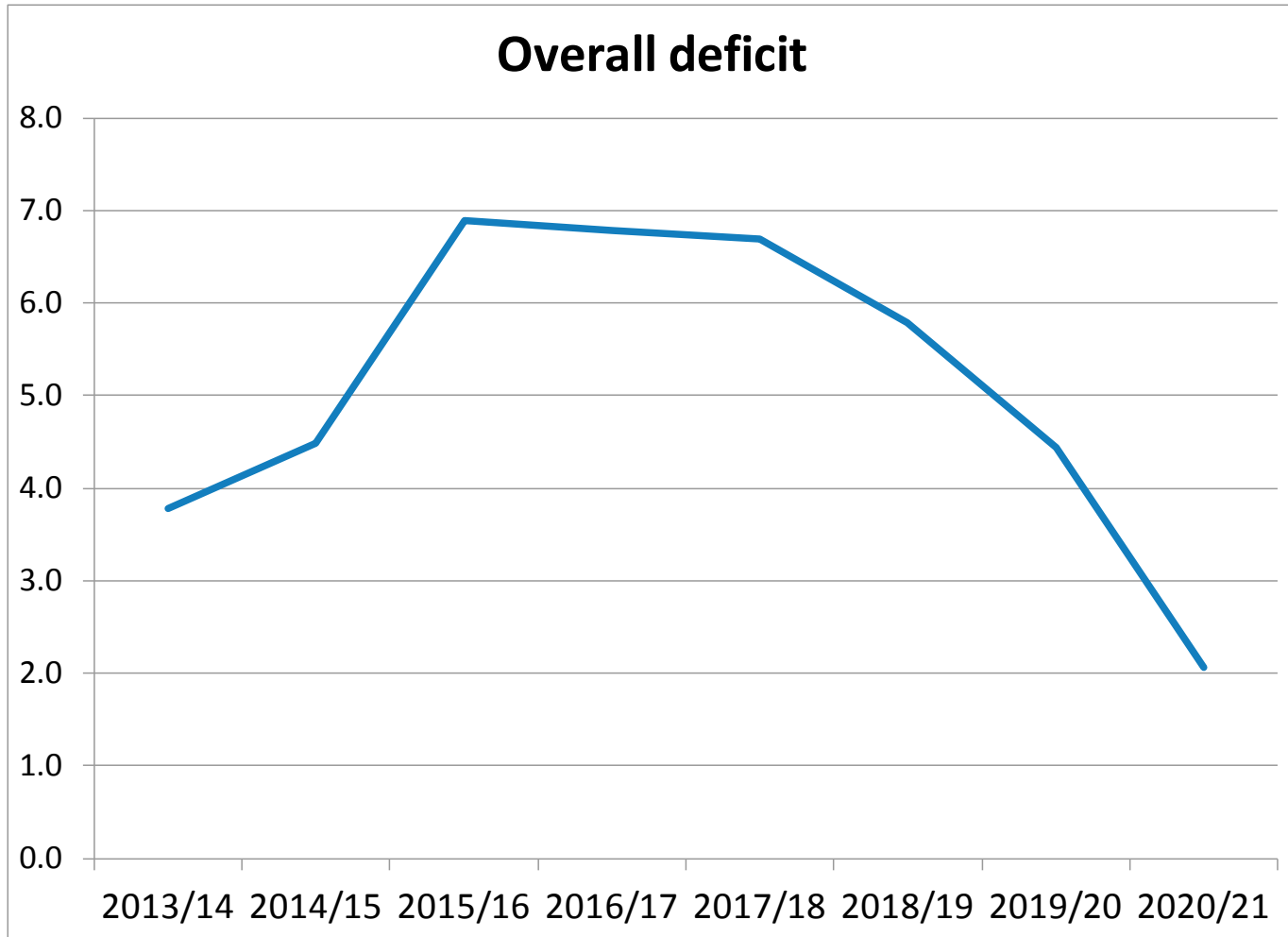
Infrastructure projects increase capital expenditures...



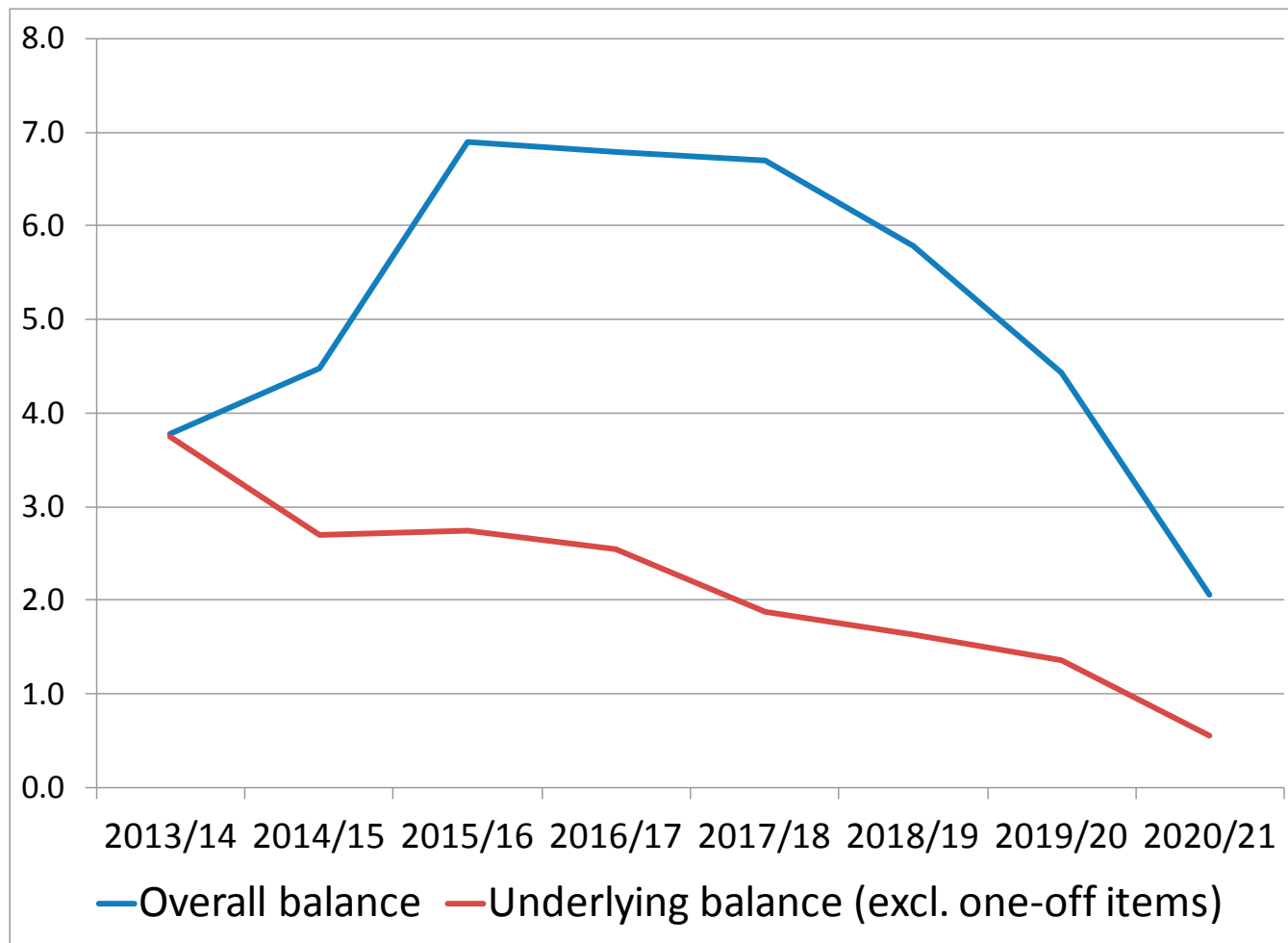
...and current expenditures through interest payments



...which pushes up the overall deficit



Revenue increases in the medium term reduce the underlying deficit



Financing for infrastructure will come largely from external sources



Infrastructure investment should be sequenced properly



- Investment should be consistent with the absorptive capacity of the economy to prevent inflation.
- Borrowing should be sustainable.
- Project selection should be based on feasibility studies.
- Need to take into account the project implementation capacity

Although the outlook is favorable, there are risks



Key risks include:

- External shocks
- Delays in oil production
- Delays or cost overruns in the infrastructure projects
- Security issues
- Fiscal risks

Fiscal Risks



- Election related spending may push FY2015/16 off track
- Revenue increases may not materialize pushing overall deficits and borrowing higher
- Projects may proceed at an uneven pace or additional projects may be added

Thank you!

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