REFLECTIONS ON - REGIONAL ECONOMIC OUTLOOK (REO)- Sub-Saharan Africa

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REO IDENTIFIES THE FOLLOWING CHALLENGES

- ON-GOING COVID-19 PANDEMIC
- ACCELERATING PACE OF CLIMATE CHANGE
  - (More frequent droughts, floods, changes in typical weather patterns - affecting agriculture/economy as a whole)

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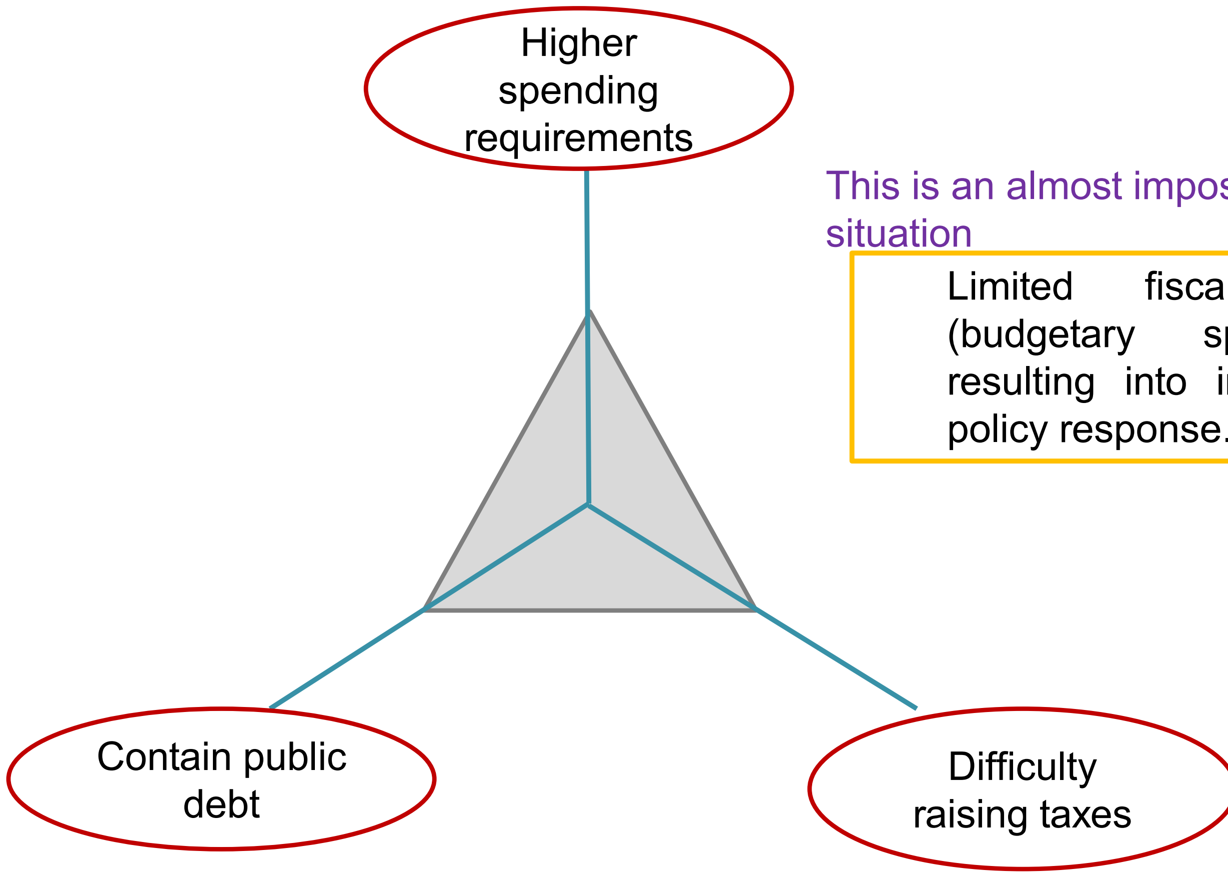
The COVID-19 pandemic and the negative effects of climate change led to a decline in overall economic growth in Sub-Saharan African countries, including Uganda.

RECOVERY IS SLOWER IN SSA THAN ELSEWHERE: but there are differences in countries

Year (Calendar)	2021	2022
Global Economic Growth (%)	5.9	4.9
Sub-Saharan Africa (SSA) Growth (%)	3.7	3.8
Uganda (%)	4.7	5.1

- Source: International Monetary Fund (IMF) REO October 2021
- Slower/gradual recovery for SSA countries compared to recovery in world growth.
- However there are differences in economic outlook in individual SSA countries. Uganda projected to grow above SSA average in 2021 and above both SSA and world average growth in 2022.

Fiscal Policy Maker's Trilemma



This is an almost impossible situation

Limited fiscal space (budgetary space) – resulting into inadequate policy response.

What are the solution(s) to this trilemma?

- More financing which does not worsen the debt situation of SSA countries.
  - Ideally, concessional financing from International Financial Institutions (IFIs) like IMF and World Bank
    - Grants
    - Loans with significant grant element
- IMF's Special Drawing Rights (SDR) allocation and Debt Service Suspension Initiative (DSSI) are deemed to be part of the solution. But there are a few limitations!!!!.
- Improved public sector efficiency and effectiveness to ensure value for money from available resources. Achieve greater impact.

More reasons for the slower recovery than just inadequate finance

- Weaker healthcare systems required stricter and longer lockdown periods.
- Large informal sector and wide-spread informality in SSA countries make containment measures and targeted fiscal policies difficult to implement
- Political instability in a number of SSA countries – a number of coups and economic upheavals. (Sudan, DRC, Mali, Ethiopia, etc..). These have negatively impacted supply chains between and within SSA countries.

Some Limitations – Special Drawing Rights (SDRs) and Debt Service Suspension Initiative (DSSI)

- New IMF SDR allocation good and part of the solution, but;
  - Only about 3.6 percent of the US$ 650 billion in SDRs is allocated to SSA countries (based on IMF quota share).
  - Bigger percentage allocated to more developed countries who have less need for it.
- The DSSI provides some budgetary space during a time of tight financing. However seen as postponing the debt obligation and not debt relief.

→ Hence SDR allocation and DSSI part of the solution but insufficient.

The Challenge of Climate change and Climate Finance

- **The challenge of climate change – SSA countries contribute least to global carbon emissions but are among most affected by climate change.**
  - SSA countries are more dependent on sectors that are more affected by climate, e.g. agriculture. They also have less capacity to deal with the negative impacts of climate change.
  - Addressing climate change in SSA countries is therefore critical for faster recovery and accelerated growth.
  - However for SSA countries there is a delicate balance between the environment, social, political and economic objectives (**is this a climate change policy Quadrilemma**?)
  - Given the Fiscal Policy trileema facing Policy makers in SSA countries including Uganda, mobilization of resources to finance climate change adaptation is essential. This will require partnership with countries with more capacity.

Thank you for Listening