Prioritise spending on social sectors - IMF

With an uncertain and volatile outlook, authorities must reduce vulnerability to future shocks. This requires rebuilding buffers and insuring economies against large tail risks. In an interview with *Prosper Magazine's* **Martin Luther Oketch**, the International Monetary Fund resident representative, Ms Izabela Karpowicz provides solutions for Uganda.

Ms Izabela, give an overview on how the IMF Regional Economic Outlook for Sub-Saharan Africa of October 2022 messages apply to Uganda.

Policy priorities for Uganda remain broadly unchanged compared with our recommendations in April. Uganda must step up revenue-based fiscal consolidation and prioritise spending towards social sectors to cater for the rapidly growing population and fill education gaps that have widened during the pandemic- related closures. Monetary policy must thread carefully to bring core inflation back to target within the relevant forecast horizon while remaining appropriately supportive of the slowing recovery. Investment in green infrastructure is a relevant priority for the medium term to boost growth and protect against climate shocks thus boosting agricultural productivity and securing livelihoods.

The government is planning to rationalise tax exemptions by undertaking cost-benefit analysis. What are investors' preferences when it comes to choosing the host country for their activity?

Uganda has a low level of tax revenues - below 13 percent of GDP. Reliance on domestic revenue mobilisation is a top priority to compensate for the continuing decline in donor support and non-tax revenue. This is why the NDPIII targets a 2.4 ppt of GDP increase in tax revenue. Tax expenditure rationalisation is expected to increase the tax revenue ratio to GDP and compensate for the declining grants. Because of this, the government's efforts in the direction of data collection and transparency in this area are applaudable. More recently the adoption of a tax expenditure rationalisation framework and a plan to reduce tax expenditures under the IMF- supported a major accomplishment and precondition for moving decisively in the direction of eliminating wasteful exemptions. Cost-benefit analysis is part of that process.

The International Monetary Fund resident representative, Ms Izabela Karpowicz. PHOTO COURTESY

Empirical studies and international experience suggest that tax incentives do not appear to have sizable effects on investment in the long term. Other factors are more important for attracting investment such as a simple, transparent, and predictable tax system, macroeconomic stability, low corruption, good infrastructure, a skilled labour force and others.

What is the IMF's latest outlook for the SSA region?

The International Monetary Fund Regional Economic Outlook for Sub-Saharan Africa for October 2022 shows that for many policymakers in sub-Saharan Africa including Uganda, the road ahead is daunting. With growing social needs, rising imbalances, and elevated risks, the recent crisis has pushed many of them even closer to the edge. Depleted buffers and shrinking policy space leaves little room for error, and decisions must often strike a difficult balance across competing demands, which the International Monetary Fund describes as fighting fires.

What shocks are the SSA economies undergoing currently?

Sub-Saharan Africa's outlook is affected by unfavourable global dynamics: the slowdown in advanced economies and emerging markets, volatile commodity prices, and tighter financial conditions. These developments are weighing on the post-Covid-19 recovery, putting pressure on growing debt costs, and adding complexity to the policy decision. Inflation has picked up sharply, driven by rising food prices, which has affected the poor disproportionately. In some countries food security is an issue also because of climatic changes. Fiscal buffers are eroded by the weak external demand and the fallout from the pandemic lockdowns which have stalled progress with revenue mobilisation. Monetary policy space is also limited as it must address rising inflation and respond to demands for stronger credibility yet risks undermining growth recovery further.

> **Growth.** We have revised our forecast for global growth down in 2022, largely due to a marked slowdown in advanced economies and China. Consequently, the outlook for SSA was also lowered. In 2022, we expect real growth to decline by 1 percentage point to 3.6 percent, and 3.7 percent in 2023. These averages mask pronounced differences across countries. Inflation was revised up by 2 percentage points for the region, compared with the April forecast.

What must the SSA countries do to overcome the current economic shocks?

The pressing policy priorities for the region are; rebuilding buffers, insuring economies against risks, strengthening policy frameworks, and improving governance; and third, implementing growth- supporting reforms to address macroeconomic imbalances. Successful fiscal consolidation will require boosting revenue mobilisation, prioritising spending where possible, and increasing the public spending efficiency. Credible medium-term fiscal frameworks can raise trust in fiscal sustainability, reduce exposure to shifts in risk sentiment, and lower borrowing costs. On inflation, central banks can move gradually given that the recovery is still fragile and domestic demand pressures have not been an important driver of inflation so far. A coordinated policy approach—that considers the fiscal stance and exchange rate developments is the most prudent way forward.