



*PwC Post-Budget Breakfast*

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

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# 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**

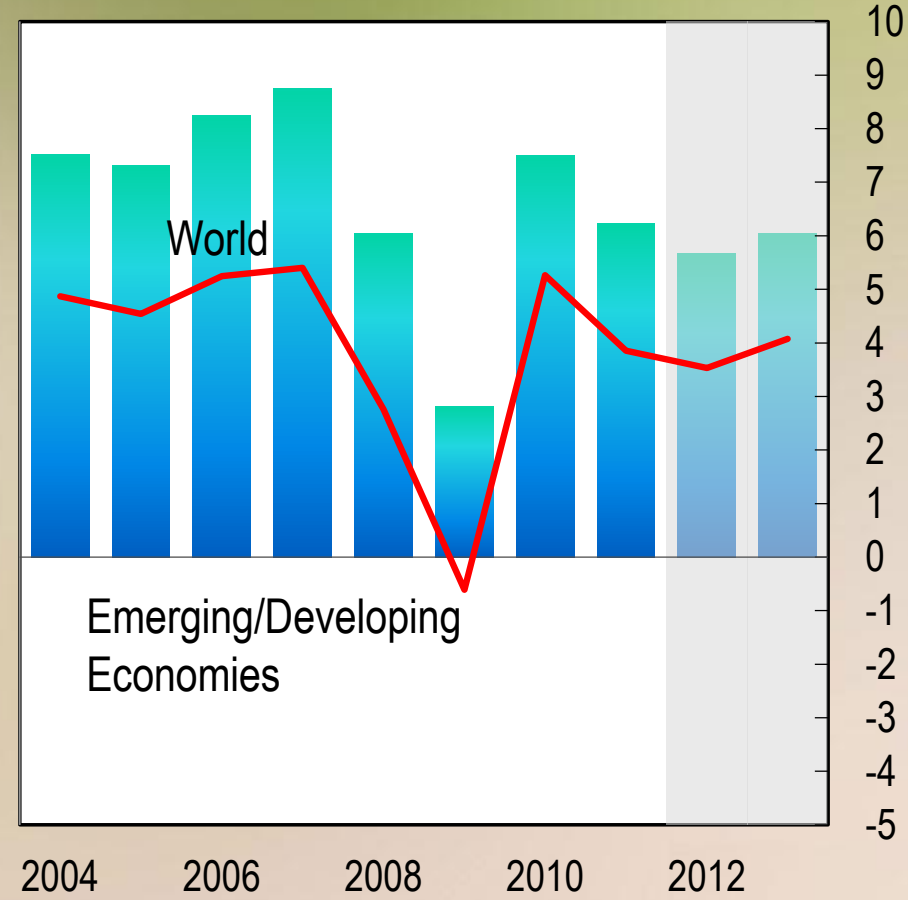
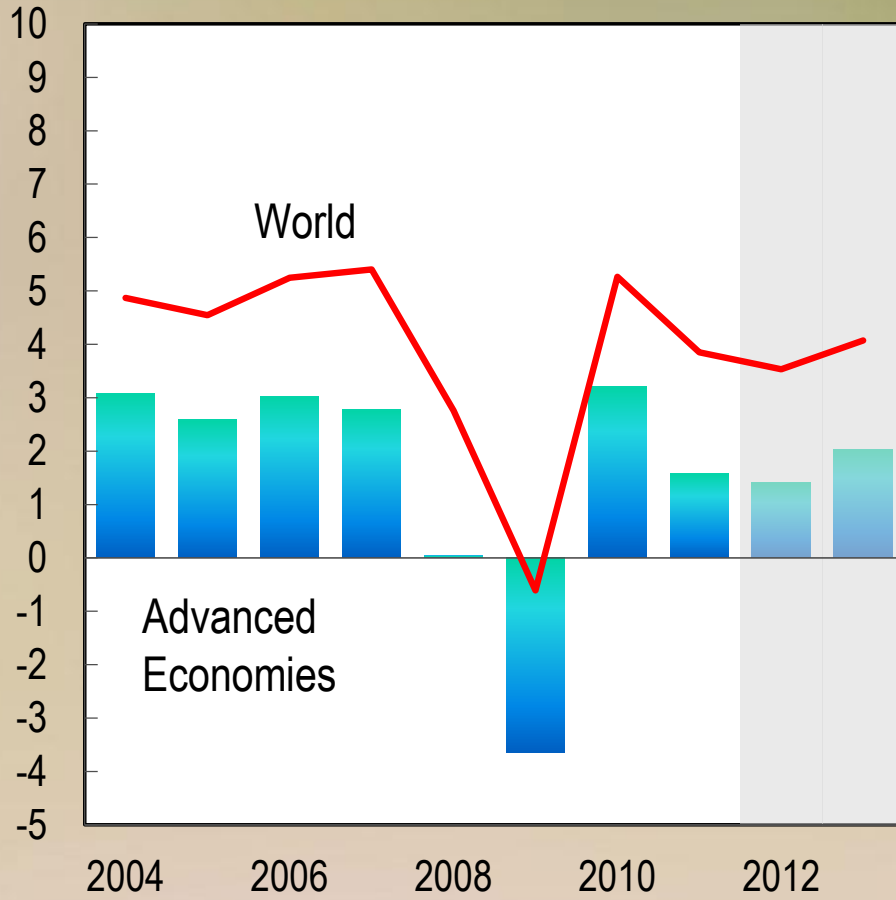
**Key assumptions underlying the baseline:**

- 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.**



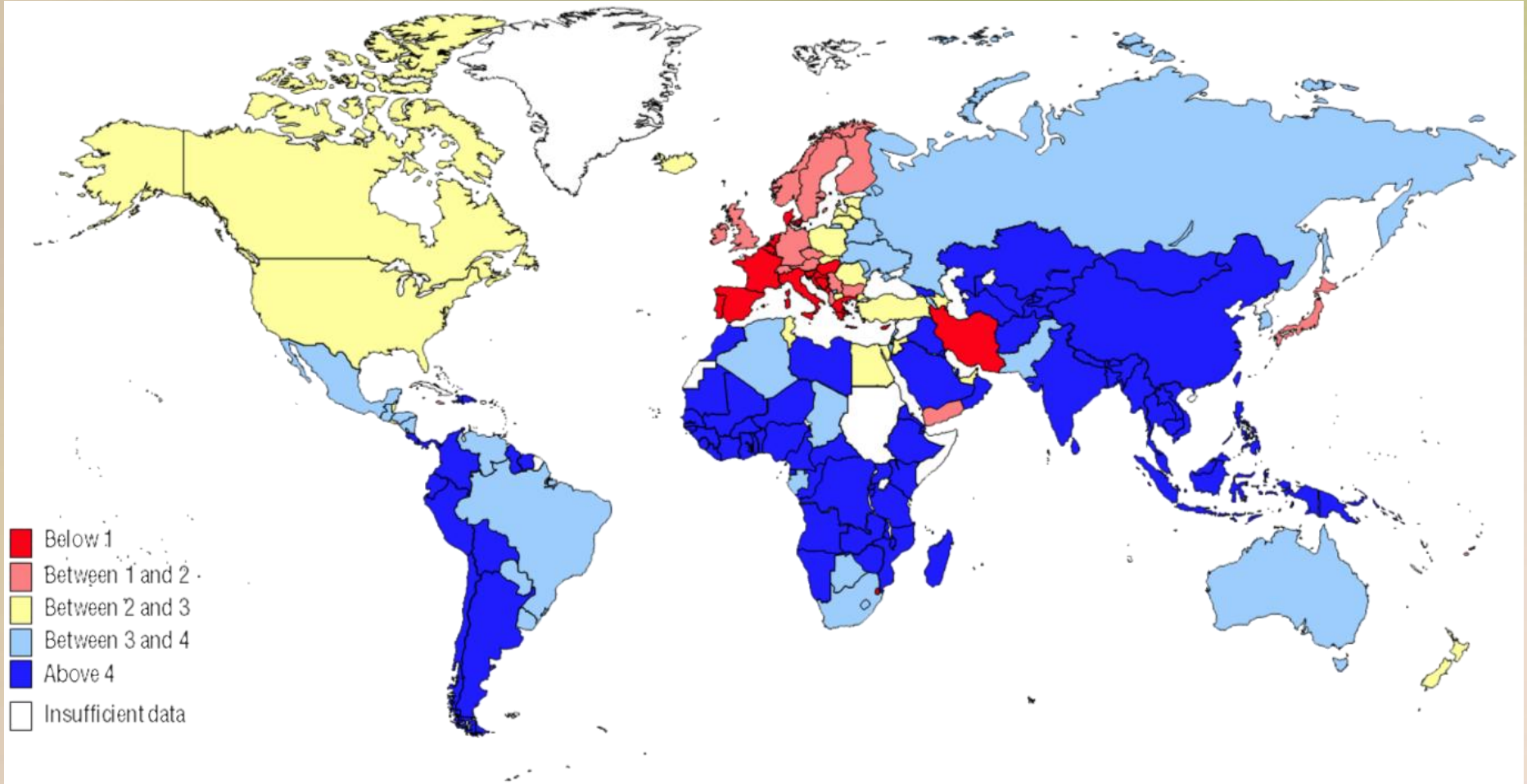
# Global economy: sluggish growth, unevenly distributed

## Real GDP Growth

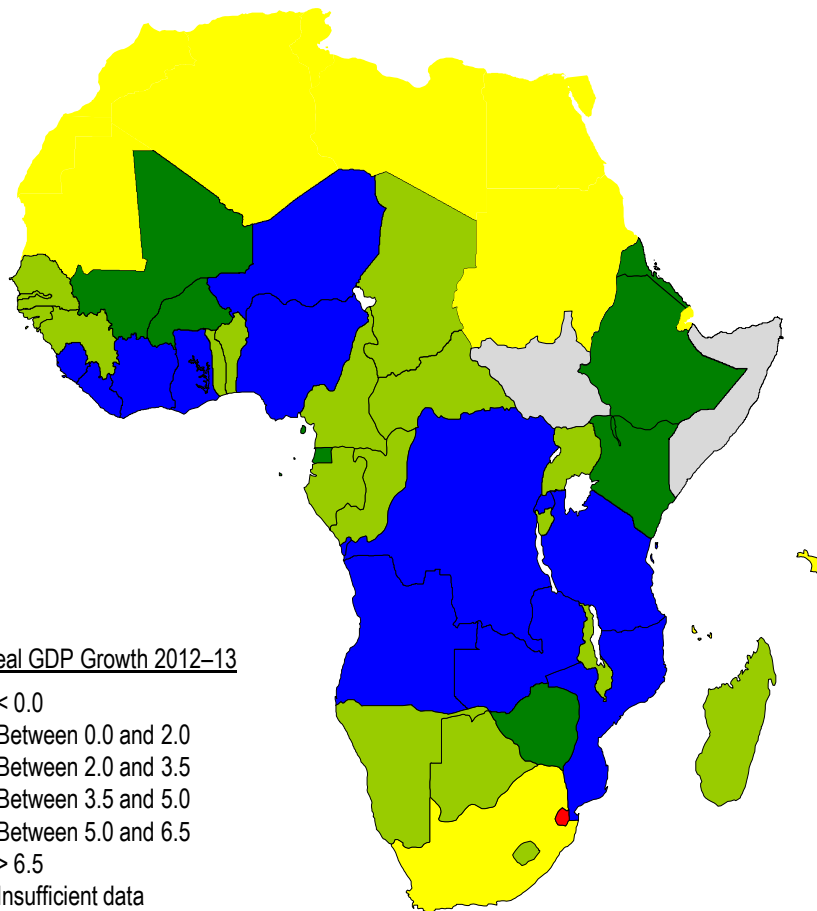


# Sub-Saharan Africa will remain among the fastest-growing regions in the world

Output Growth, 2012-13



# 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

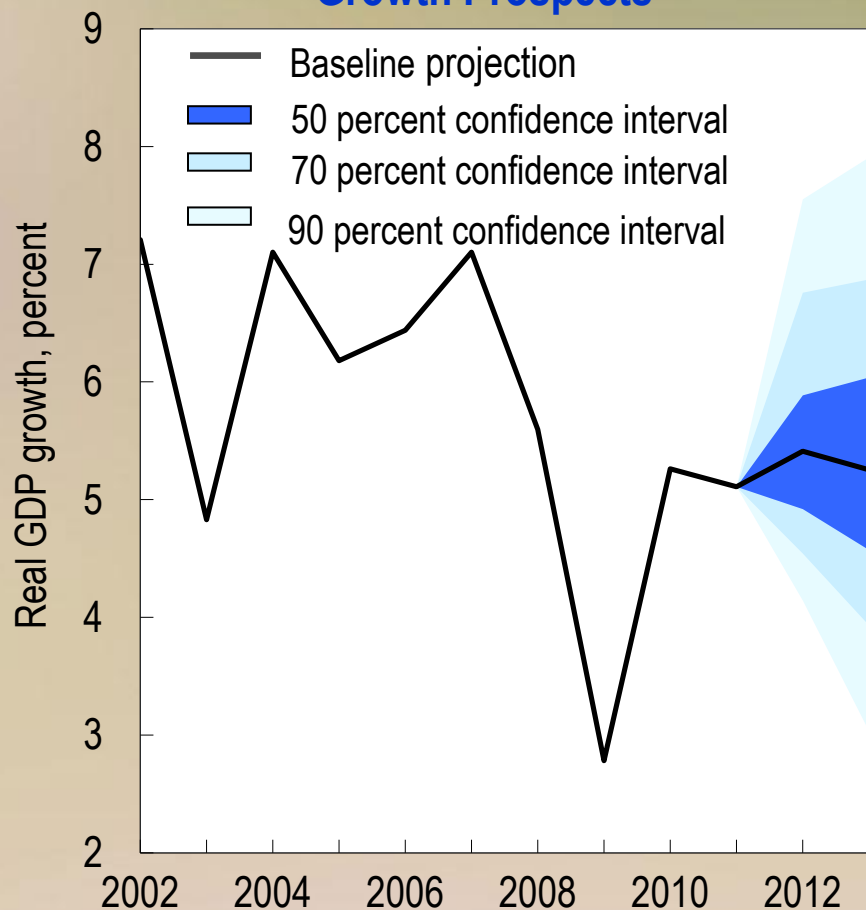
	2011	2012	2013
	(percentage change)		
Africa	3.8	4.1	4.5
North Africa	1.6	1.7	3.2
Sub-Saharan Africa	5.1	5.4	5.3
Oil exporting countries	6.0	7.1	6.1
Middle-income countries	4.3	3.5	4.1
Low-income countries <sup>1</sup>	5.1	6.0	5.9

<sup>1</sup> Including all fragile oil-importing countries.

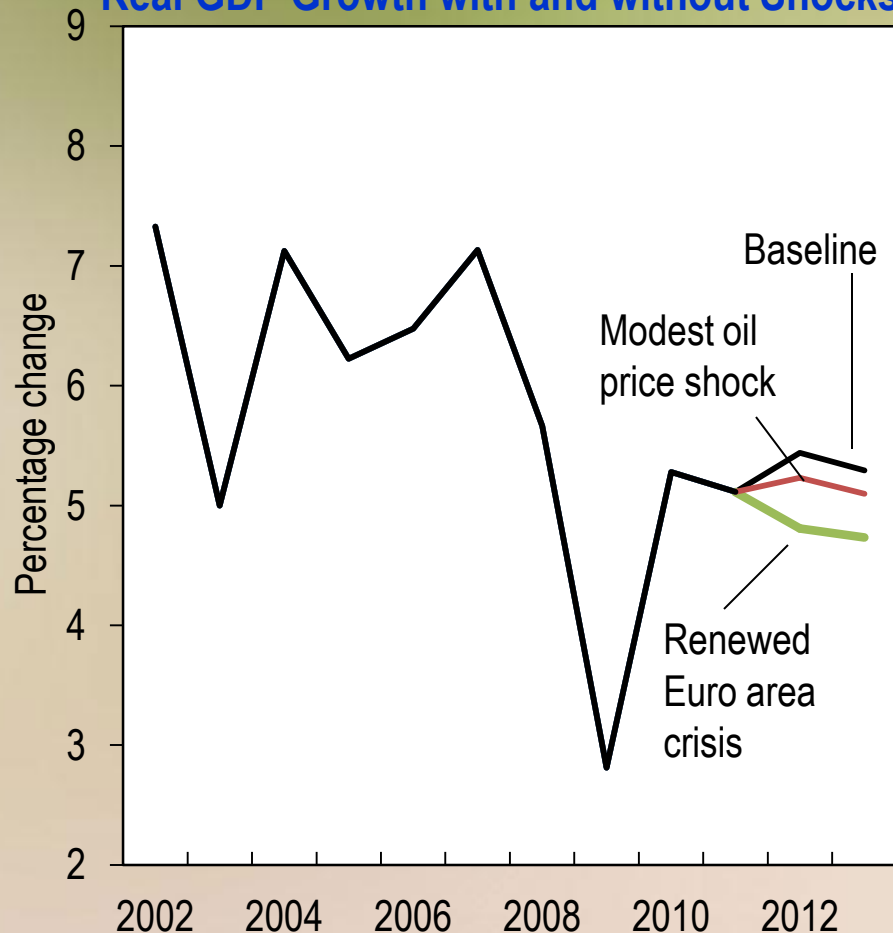


# But shocks—higher oil prices or a renewed Euro area crisis—would affect growth

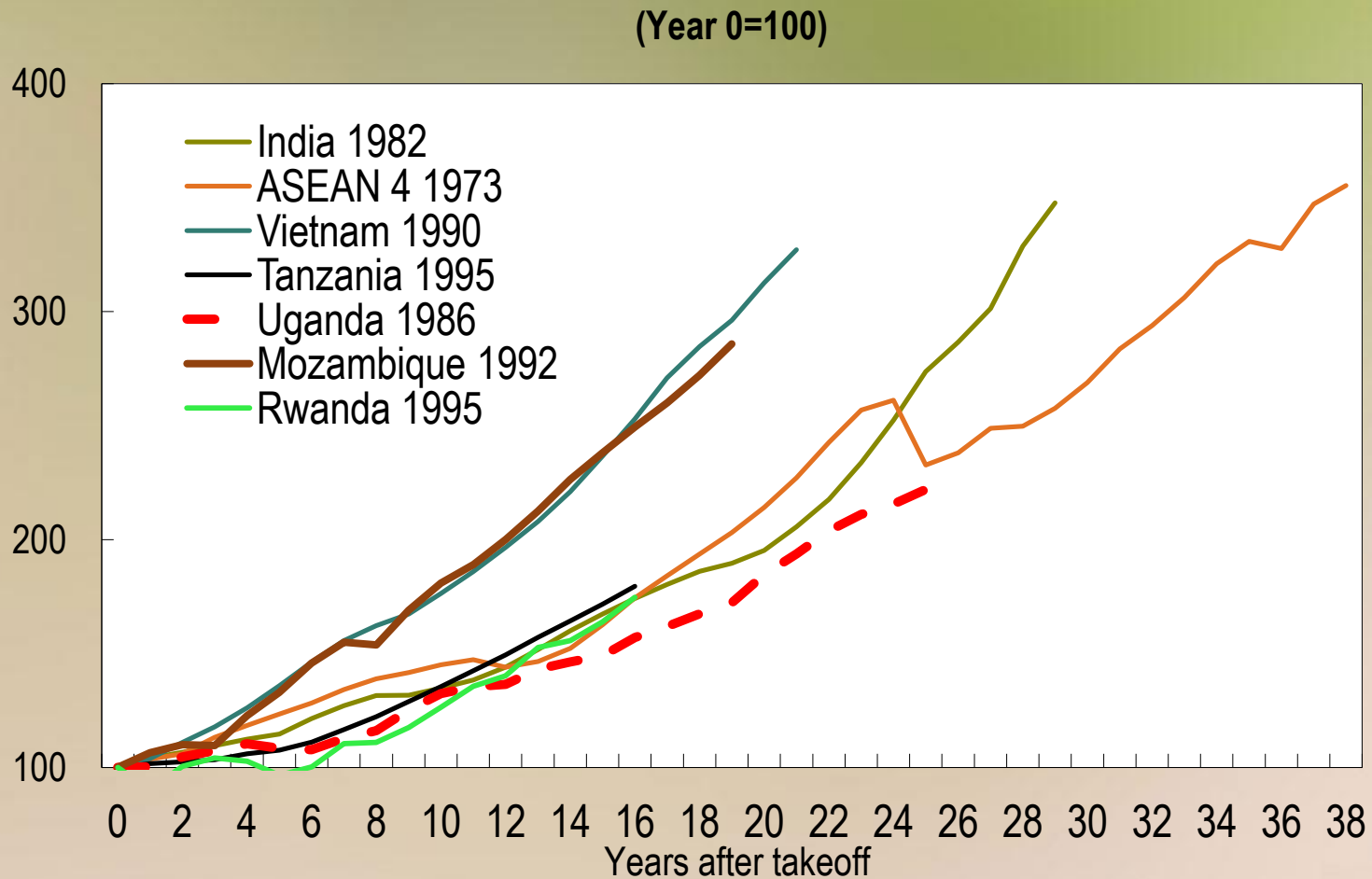
## Growth Prospects



## Real GDP Growth with and without Shocks



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



Source: IMF, *World Economic Outlook*.

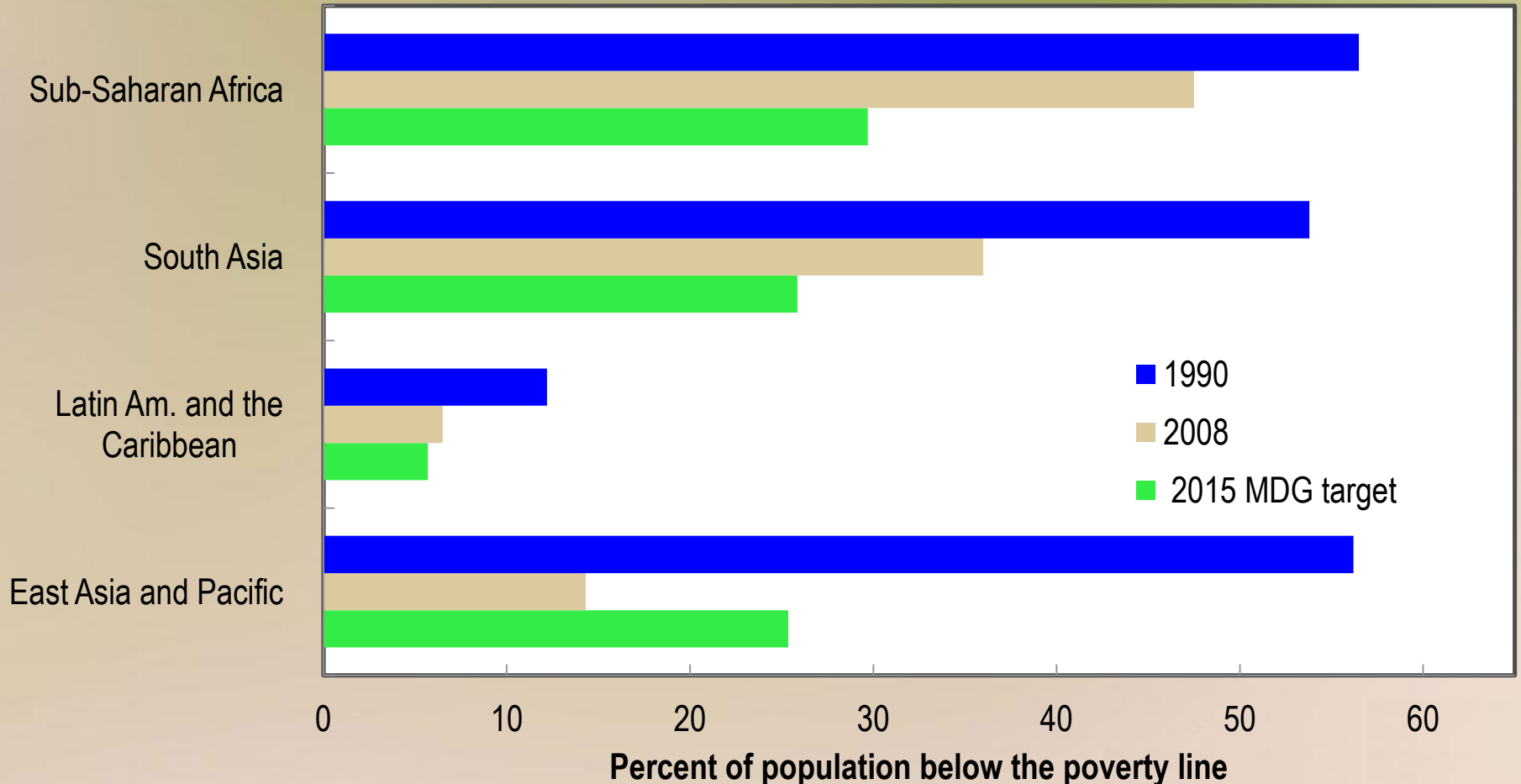
Note: Excludes China for presentation purposes, as China's growth is much higher than that for the other countries. ASEAN 4 = Indonesia, Malaysia, the Philippines, and Thailand.





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

Headcount Poverty Index



# 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](http://www.imf.org/uganda)

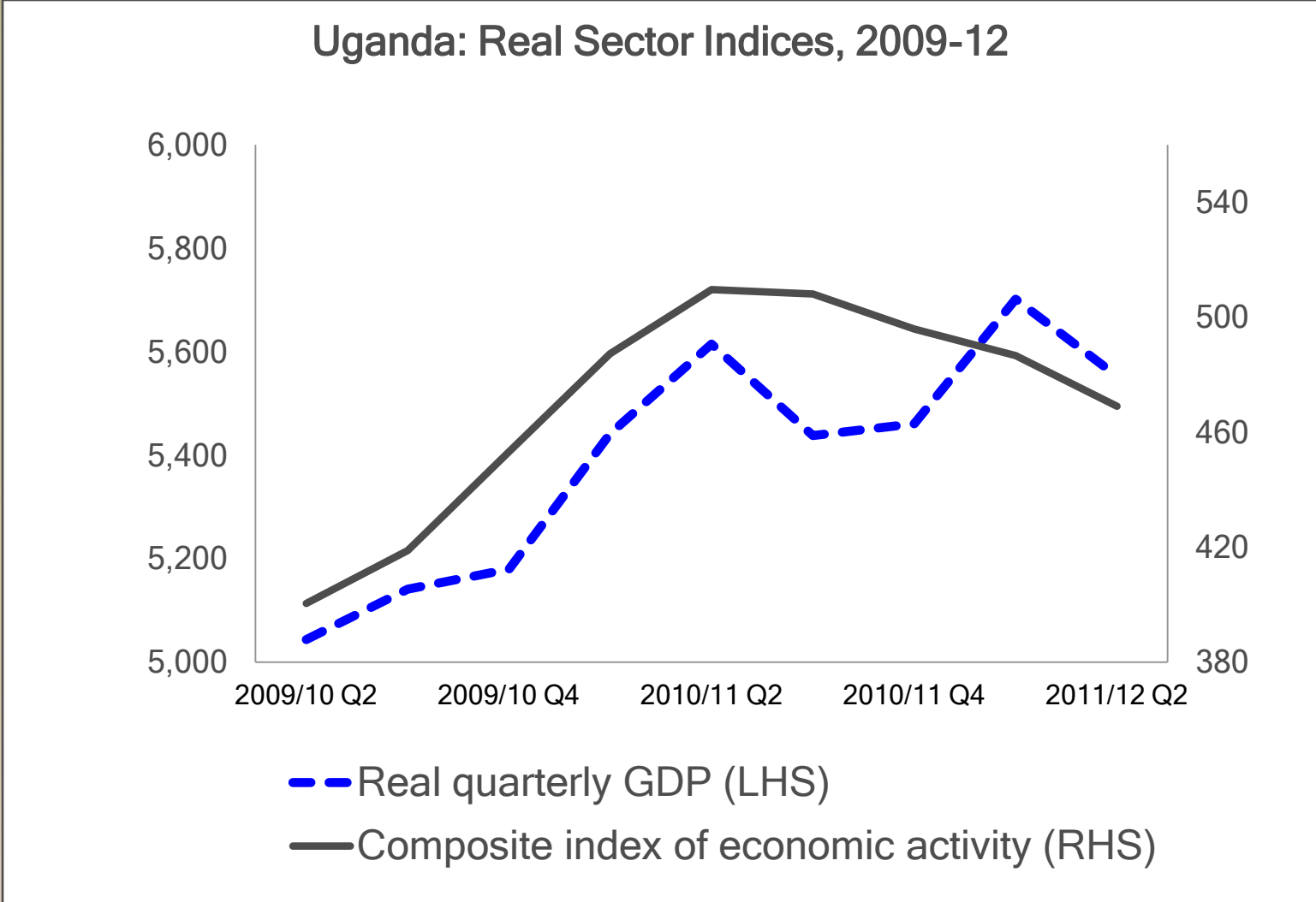


## But growth has slowed, and we see three key issues which must be addressed

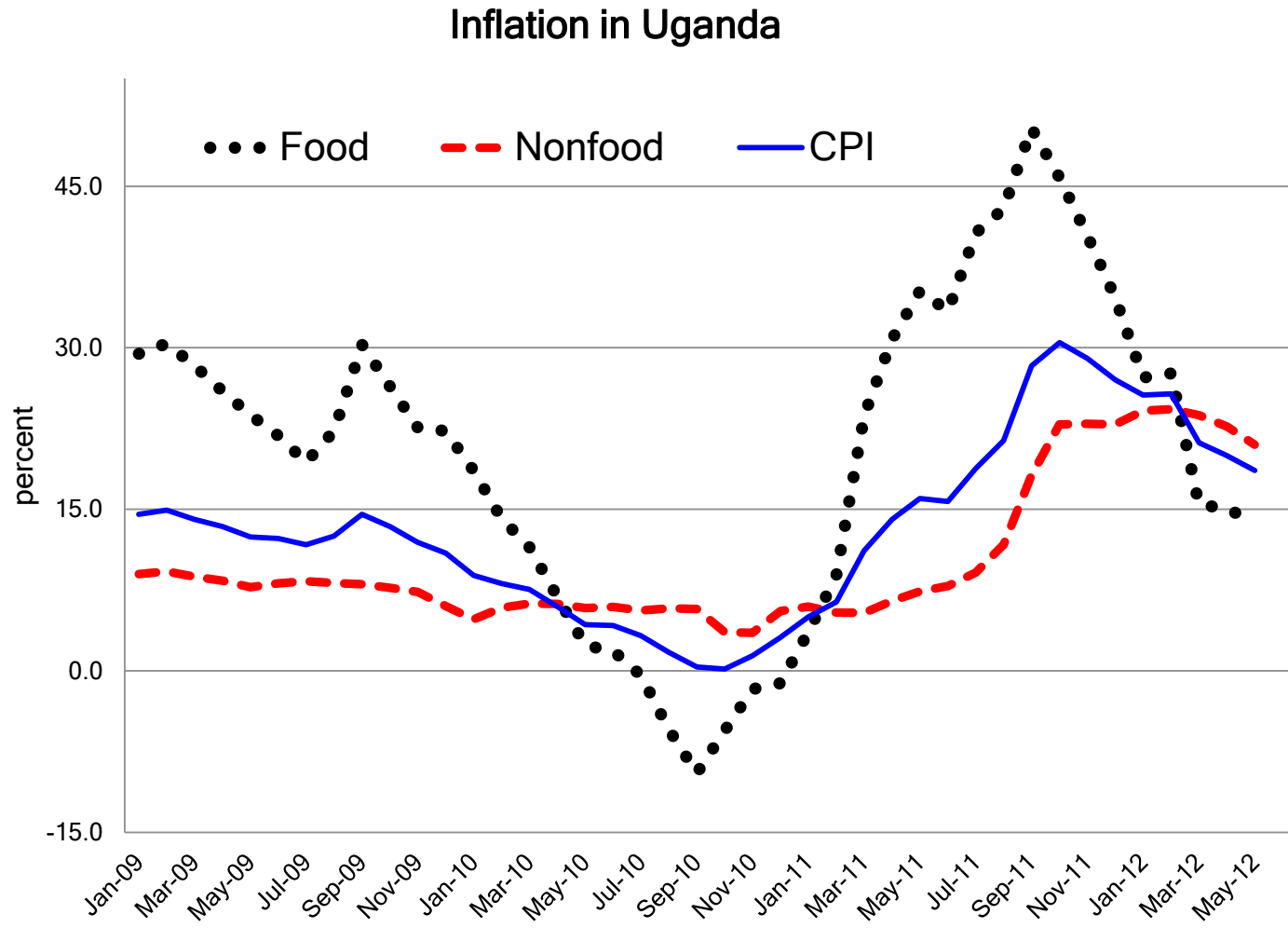
- Bring inflation down to single digits ➡ maintain tight monetary policy stance and tight budget, as Minister read yesterday
- Current account deficit is wide ➡ maintain flexible exchange rate regime
- Need for modest budget deficits ➡ need sustained revenue mobilization, especially *before oil revenue comes on line* (4-5 years at soonest)



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

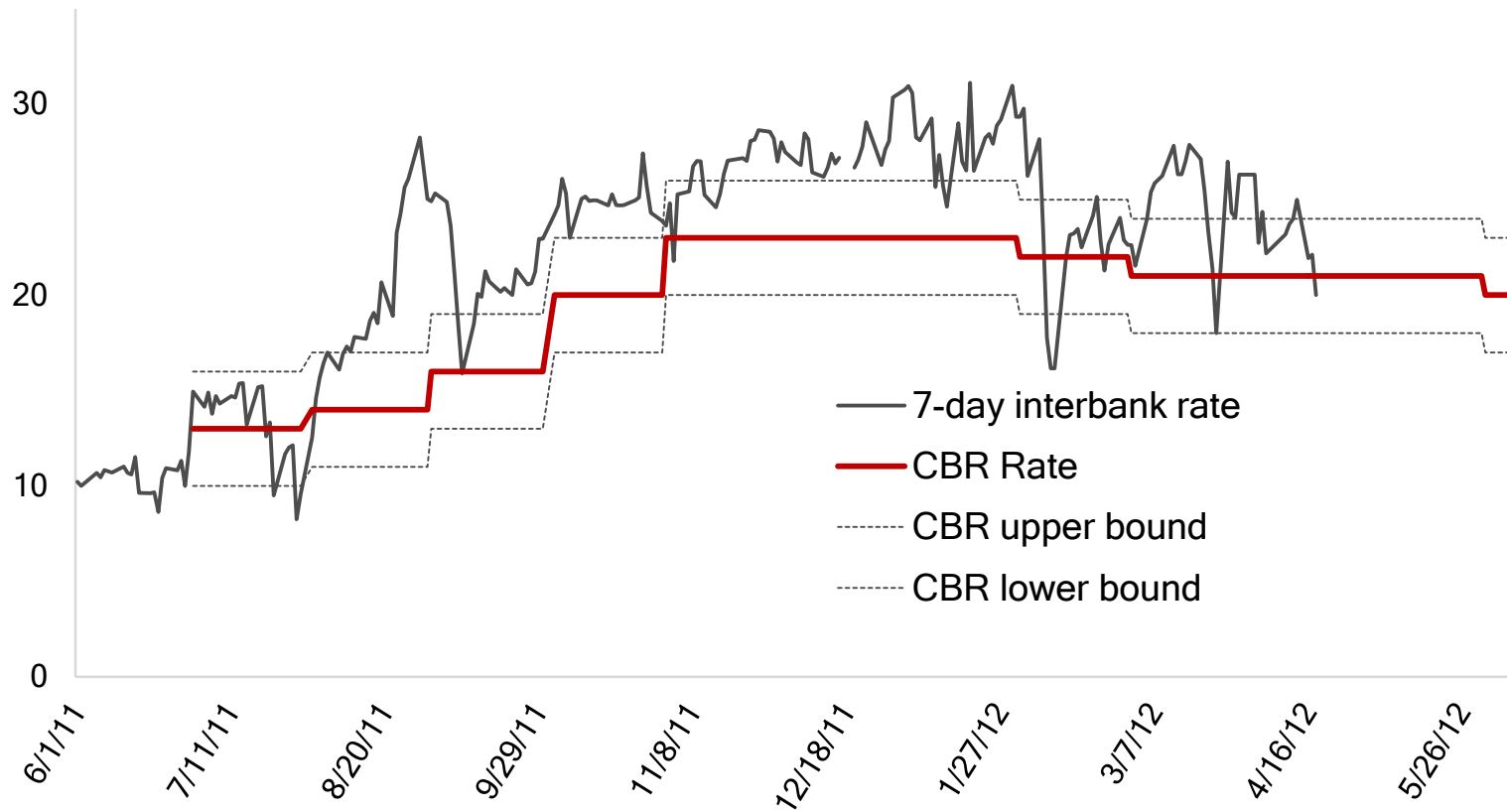


# Inflation is coming down, both food and nonfood

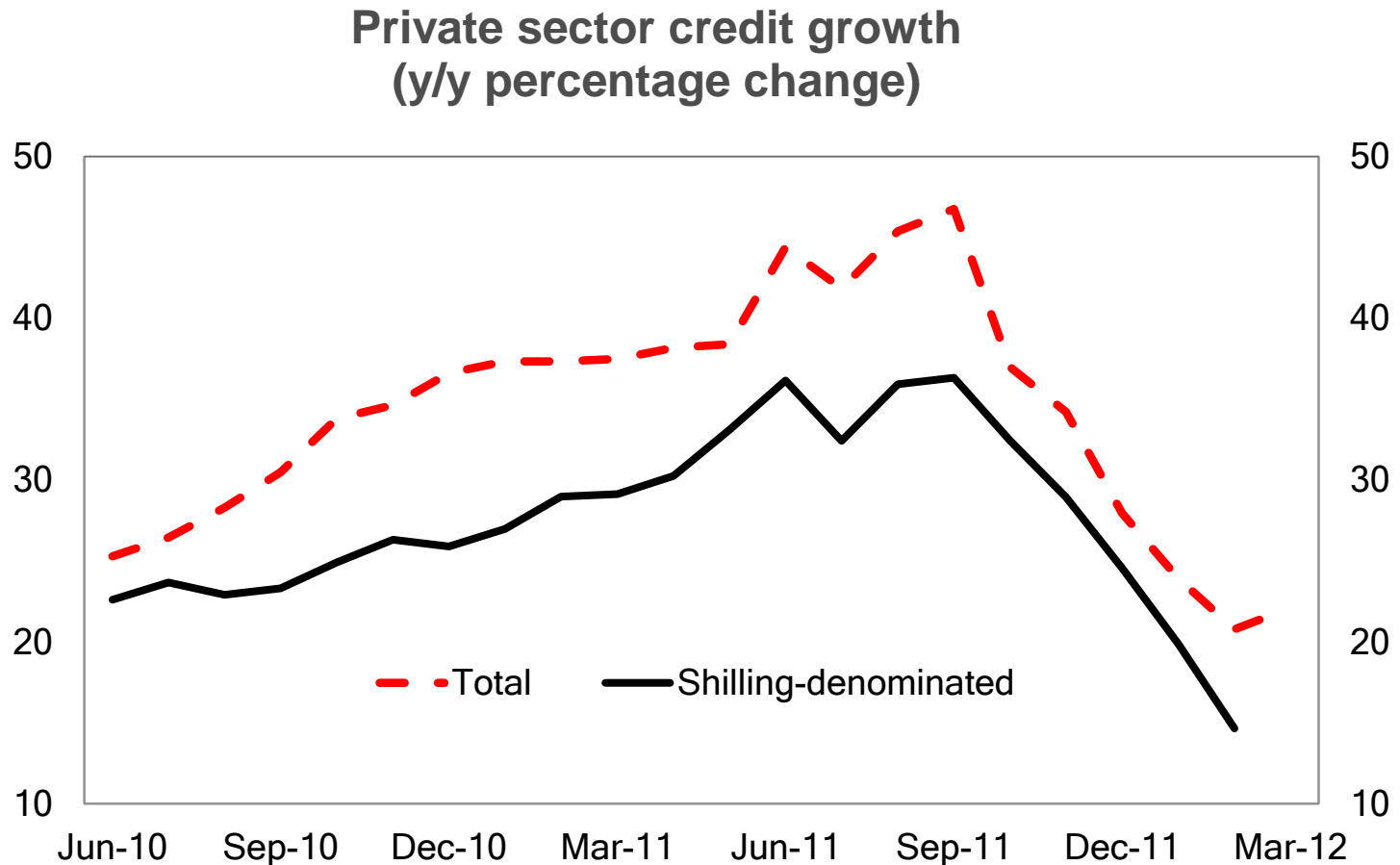


# BoU tightened monetary policy appropriately, and has now begun to ease gradually

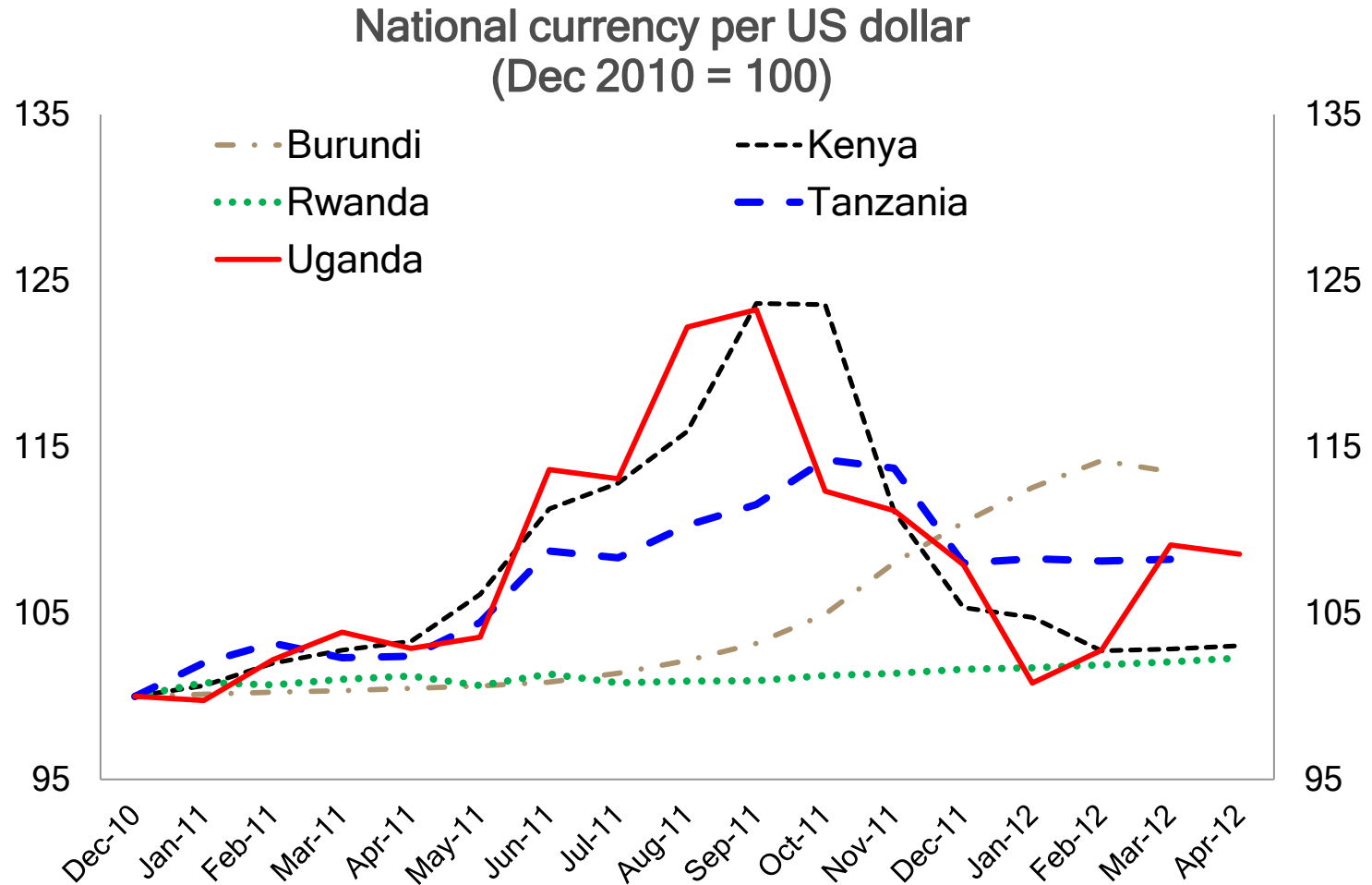
Central Bank Rate and 7-day interbank rate (percent)



# Tighter monetary policy has had an effect on private sector credit

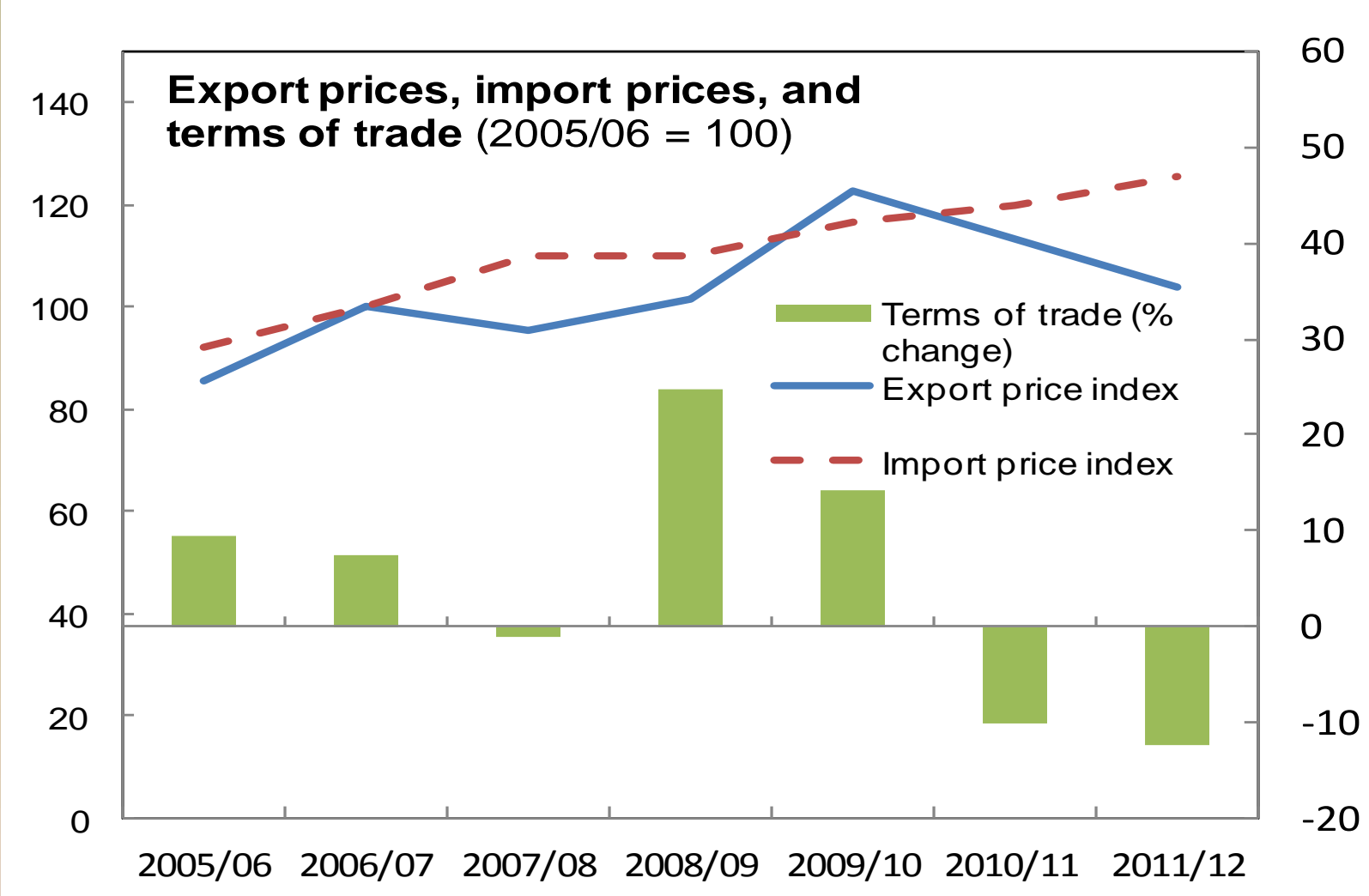


# Exchange rate volatility has been an important shock absorber, but also fed through to inflation





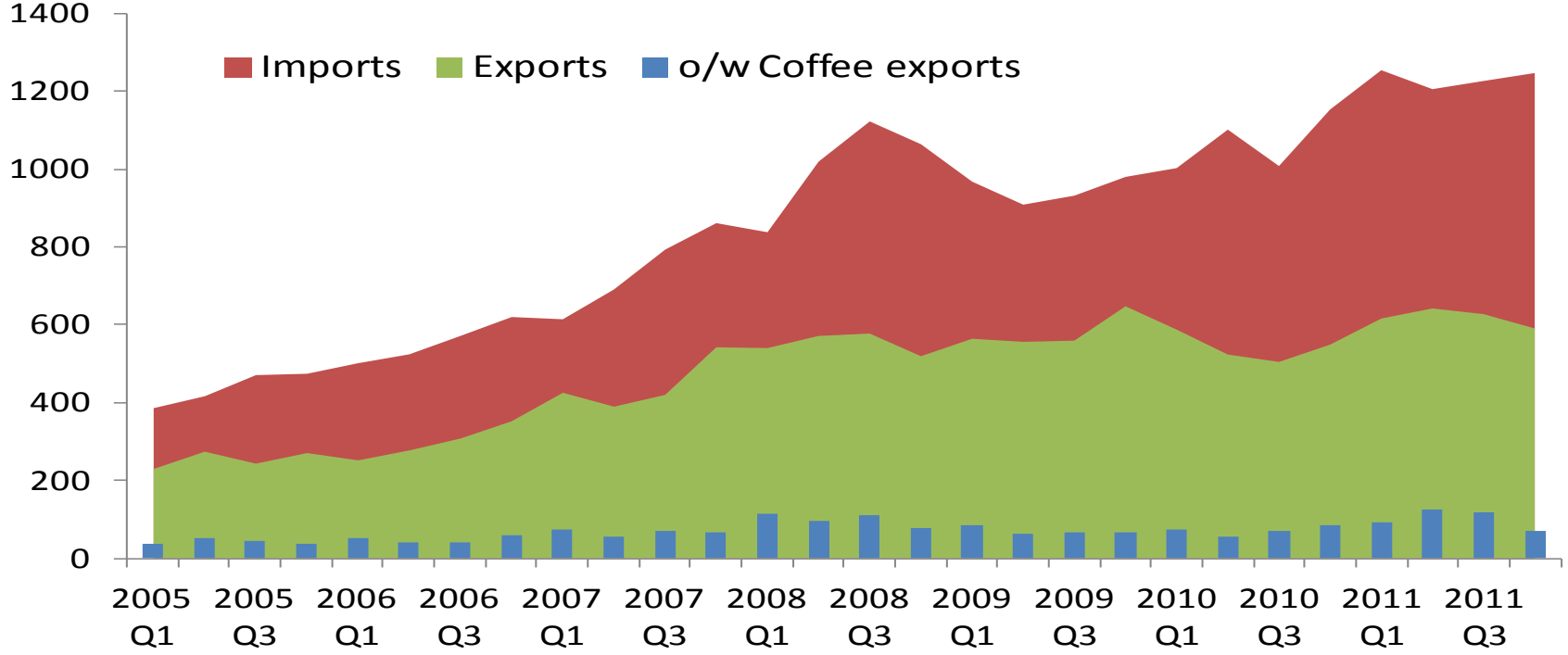
# At the same time, the terms of trade have clearly deteriorated



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

## Uganda: Total Exports and Imports

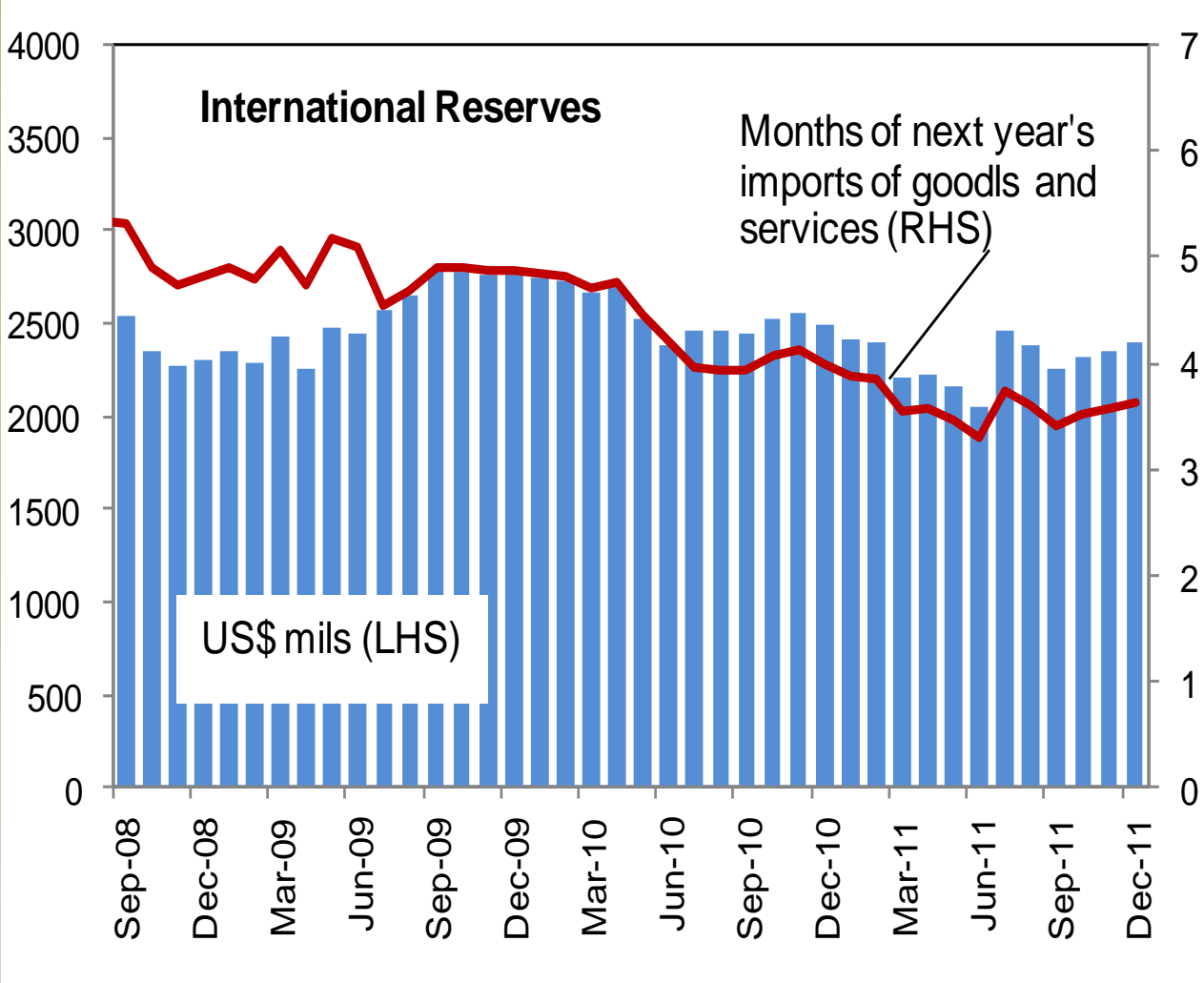
*In USD millions*



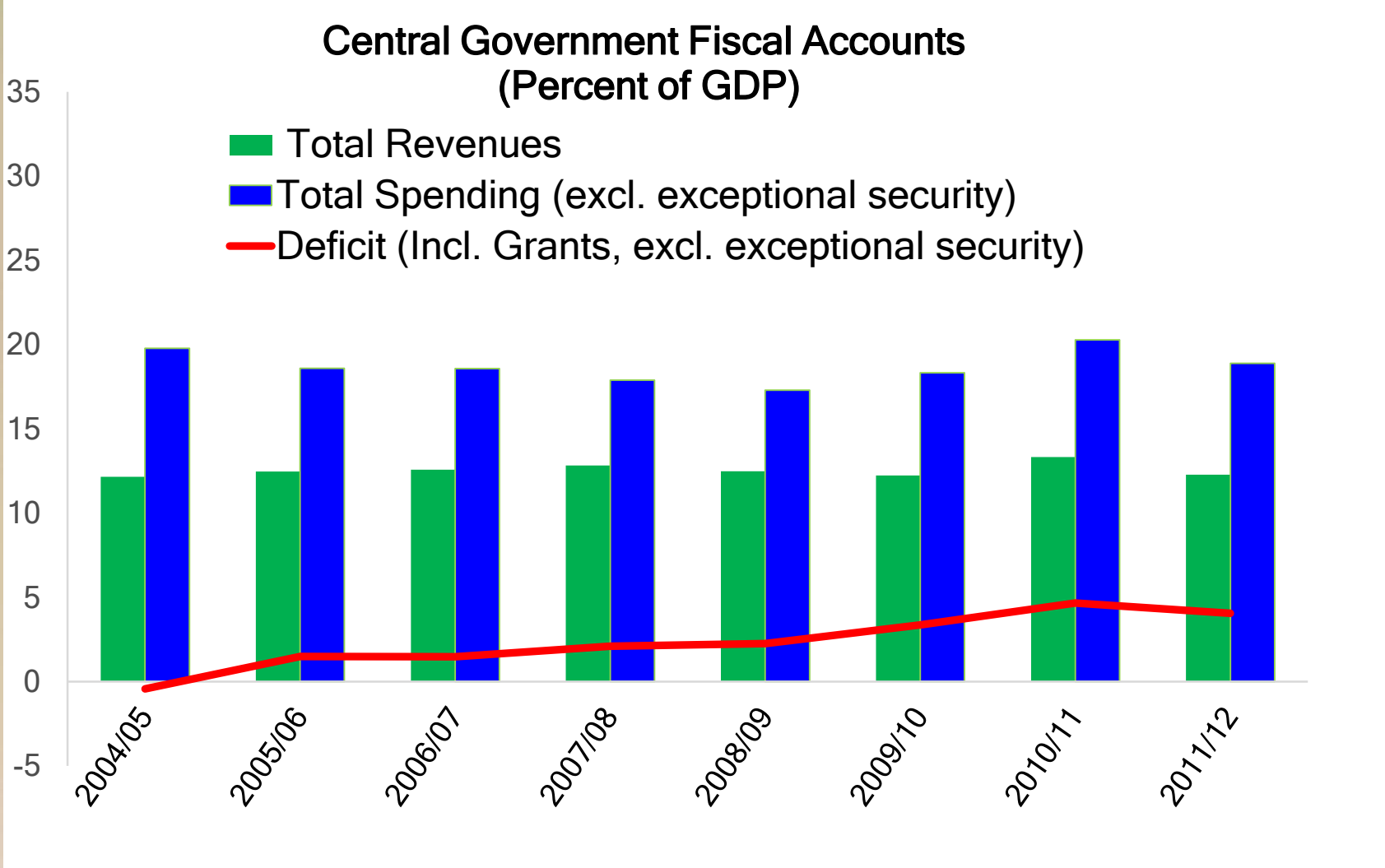
Source: Bank of Uganda



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

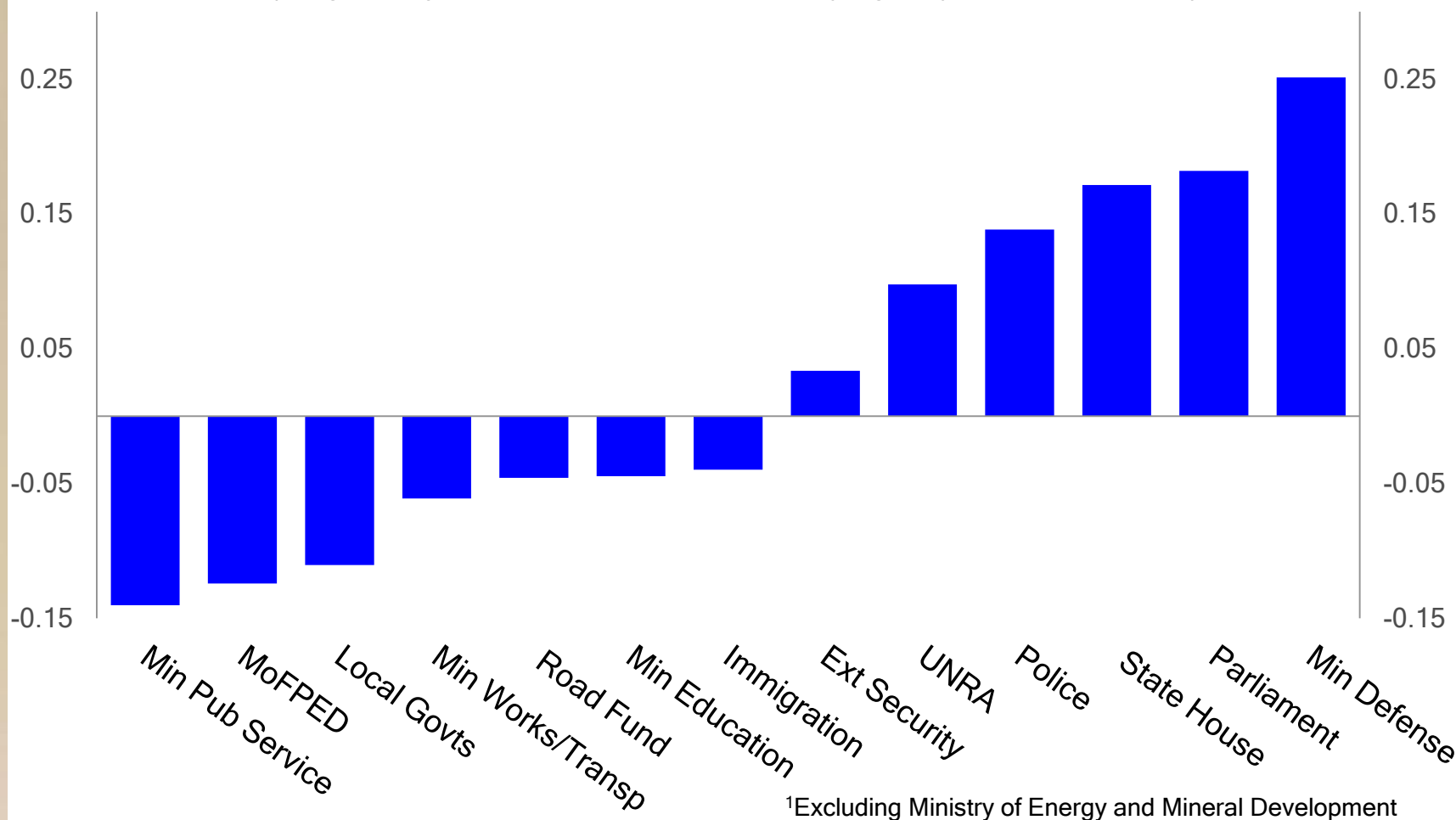


# Fiscal policy remains supportive of disinflation



# But supplementary budgets distort spending priorities

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



<sup>1</sup>Excluding Ministry of Energy and Mineral Development



# And infrastructure needs are massive

“Lake Bunyonyi”

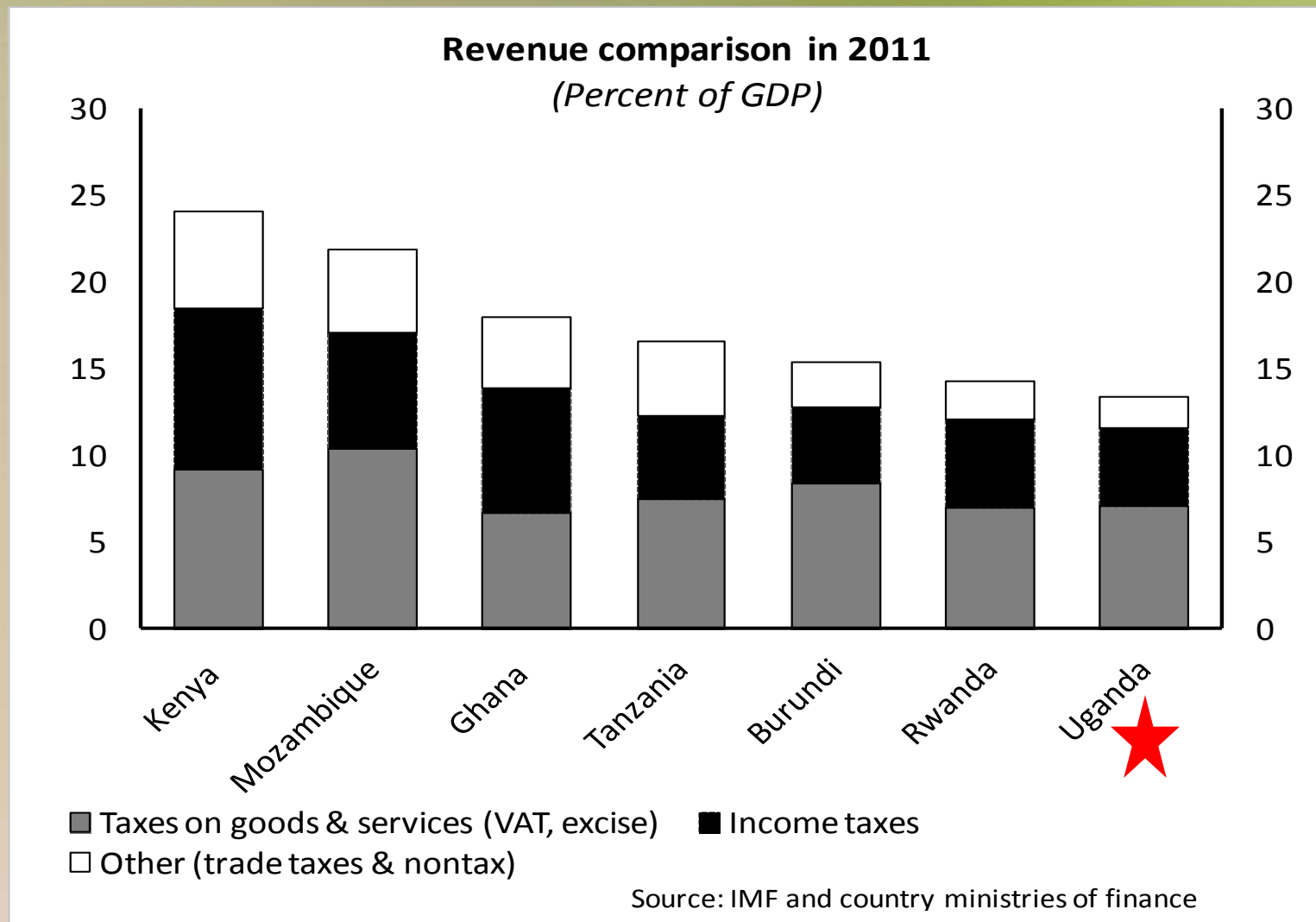


*Daily Monitor*, August 27, 2010



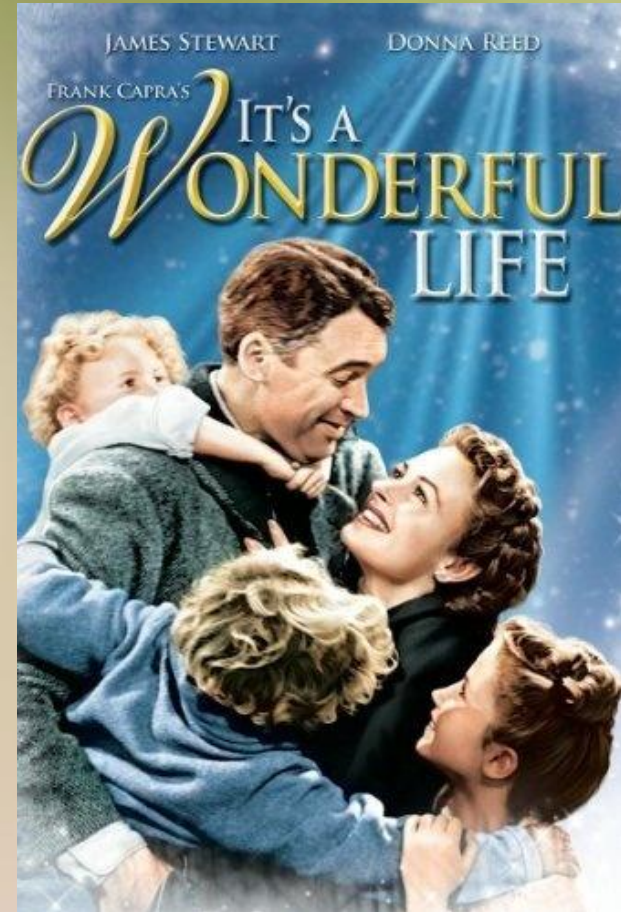
# Revenue mobilization is a challenge in Uganda

➔ *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:



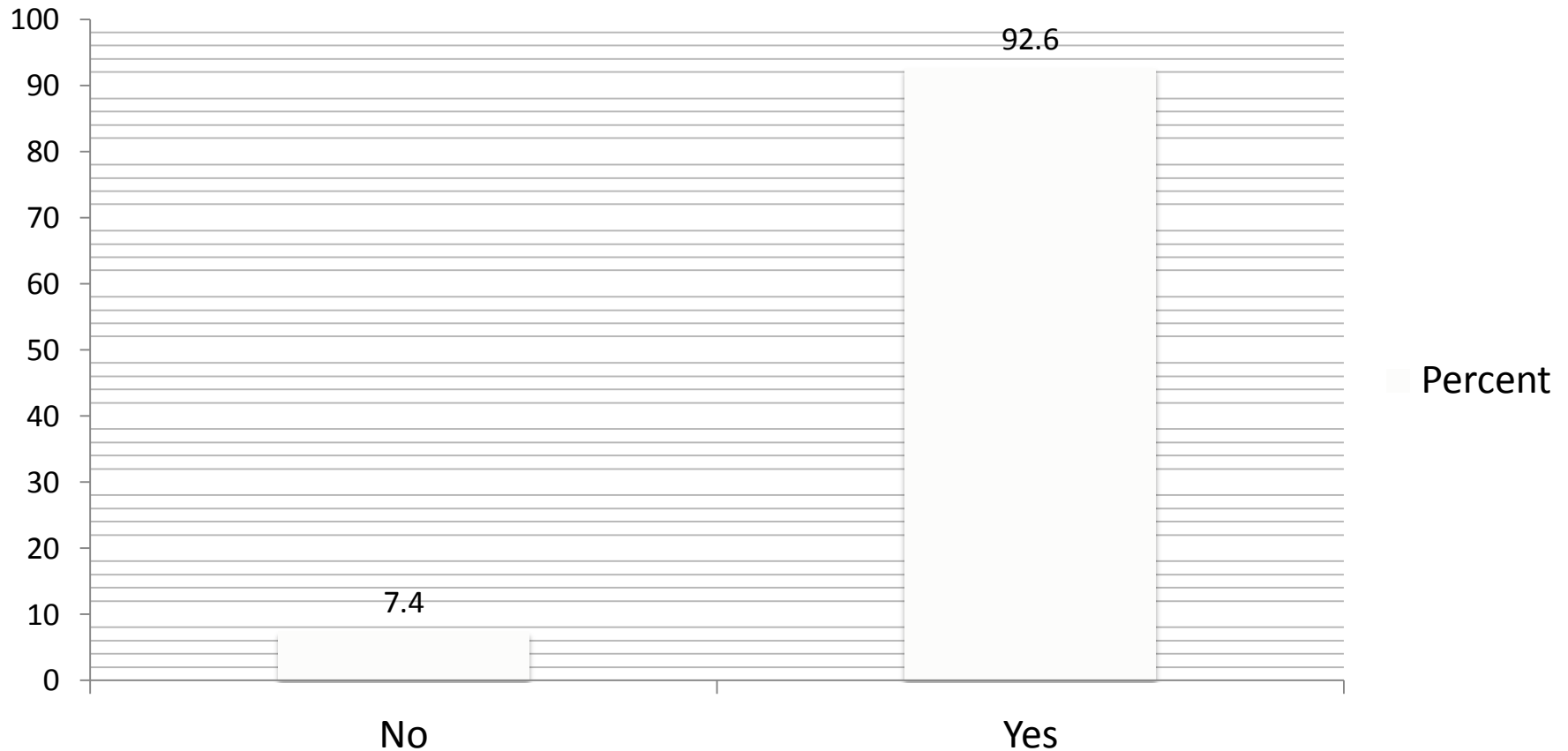
*Daily Monitor*, August 27, 2010



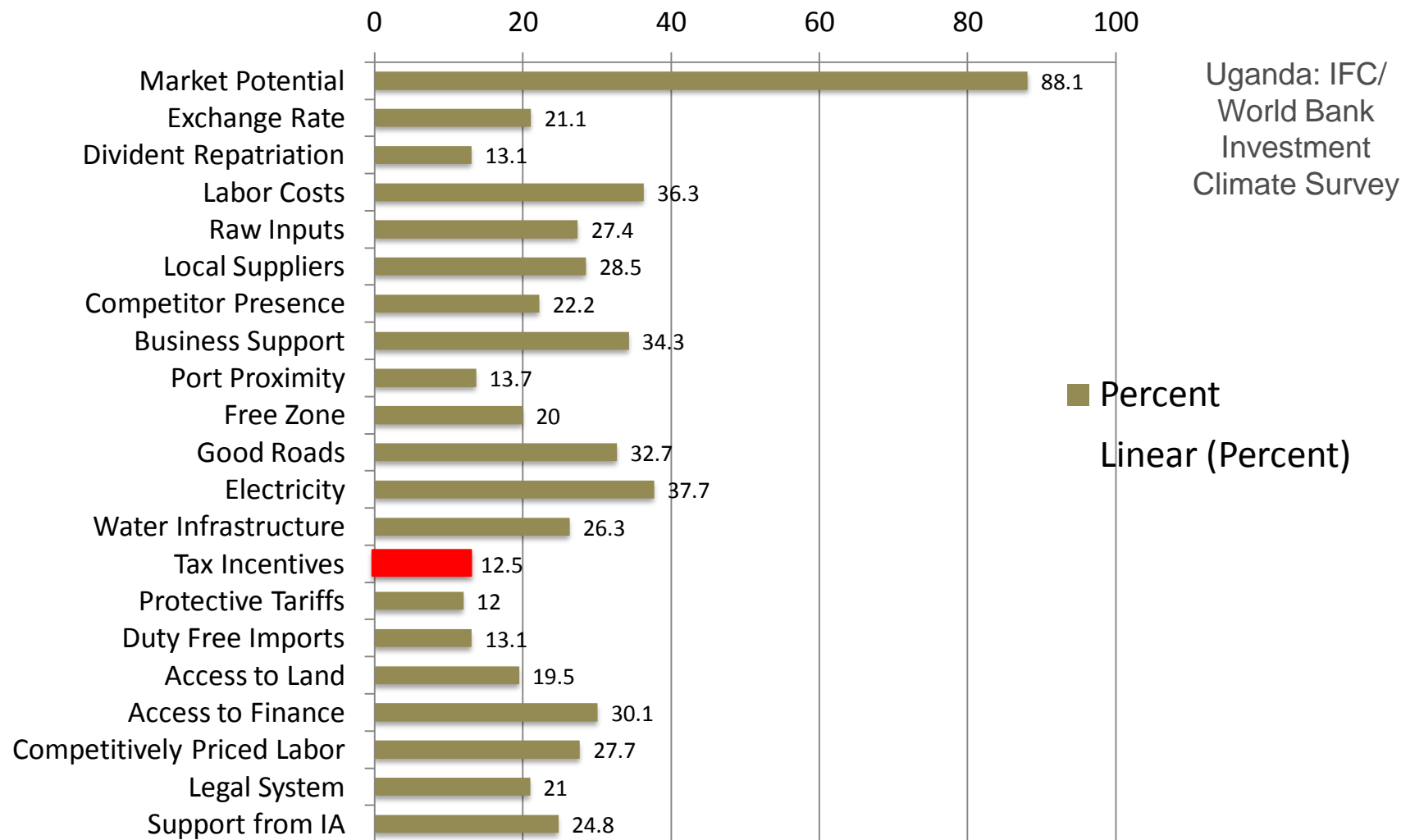


# Over 90% of the investors said they would have invested even if they didn't receive any fiscal or tax incentives

Results for Uganda: IFC/World Bank Investment Climate Survey



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



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

