



World, Regional and Uganda Economic Outlook

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A Presentation in Three Parts

- **World Economic Developments and Outlook**
- **Sub-Saharan Africa Economic Developments and Outlook**
- **Uganda Economic Developments and Outlook**



Main Message: Action is Needed to Put Recovery Back on Track

- **The global economy** has suffered new setbacks and projections are now more pessimistic;
- **Risks** are up sharply;
- **Advanced Economies:** policies have progressed, but further actions are needed;
- **Emerging Markets:** complex setting—rebuilding policy room for maneuver versus supporting growth.

New Setbacks to the Global Recovery

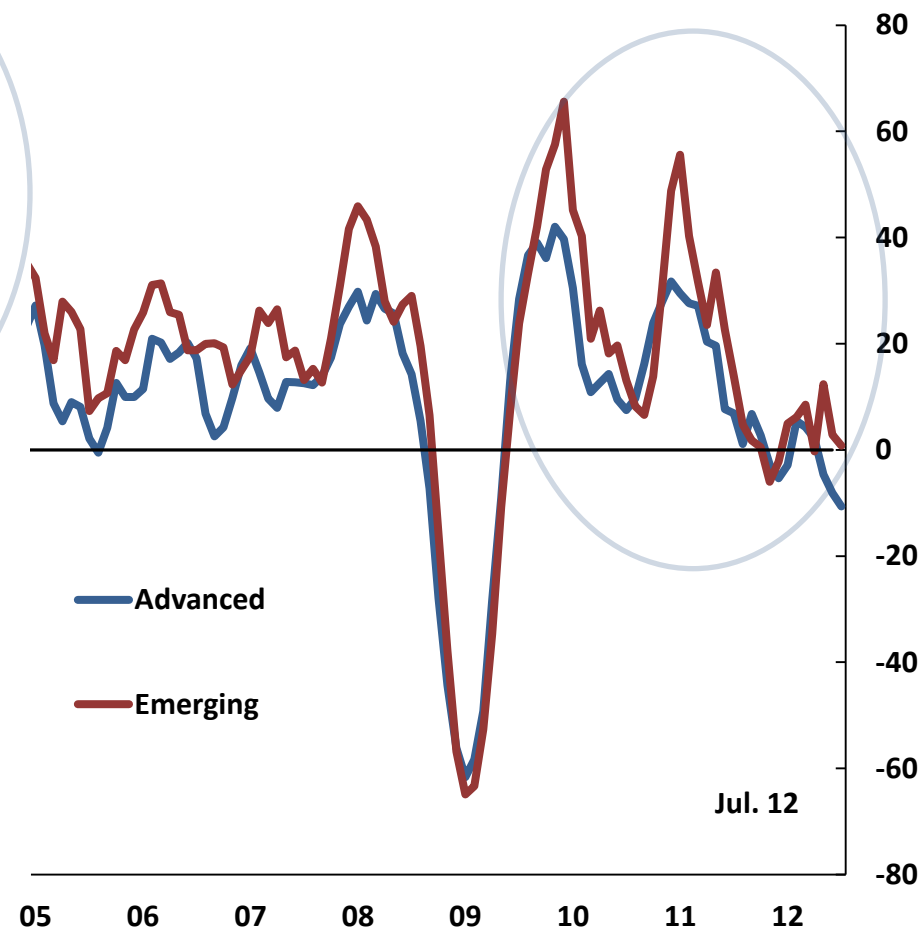
Global Manufacturing Purchasing Managers Index (PMI)

(Index; > 50 = expansion; SA)



Merchandise Exports

(Percent; 3-month moving average, annualized)





What went wrong?

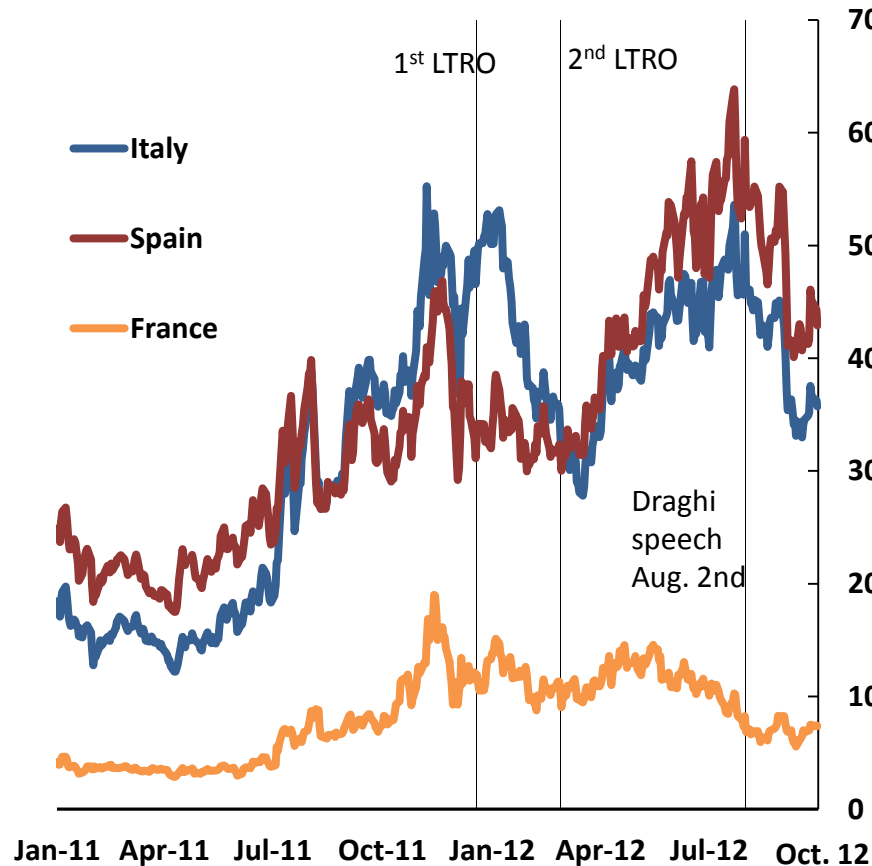
Increasing strains in the euro area

End of the emerging markets boom

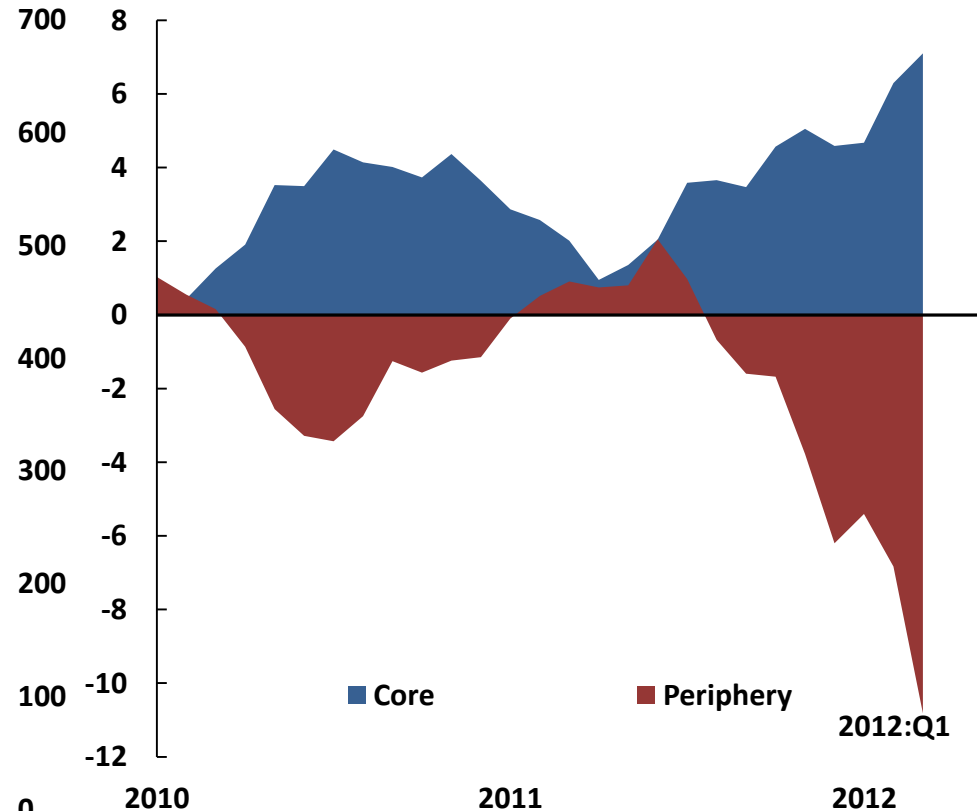
Large growth impact of fiscal adjustment amid tight financial conditions

Euro Area: Growing fragmentation, despite policy responses

10-Year Government Bond Spreads over German Bunds
(basis points)



Portfolio and Other Investment Capital Flows, Excluding Central Banks
(Cumulative from December 2009, in percent of GDP)

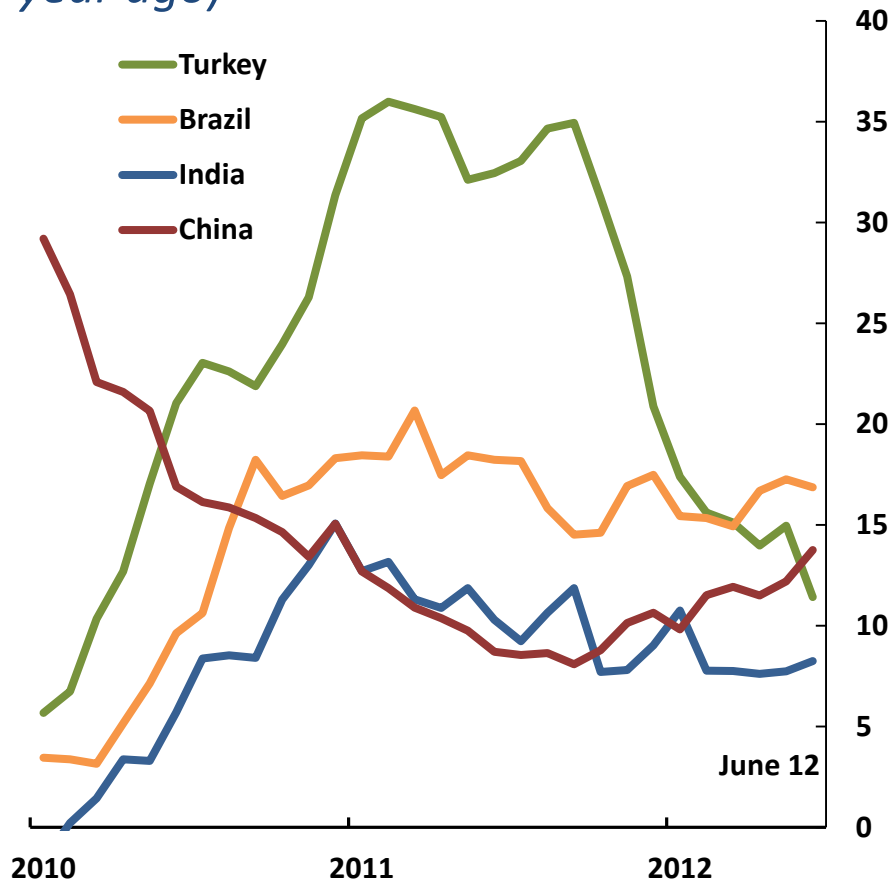


Sources: Haver Analytics; and IMF staff estimates.

Emerging Markets: End of a boom

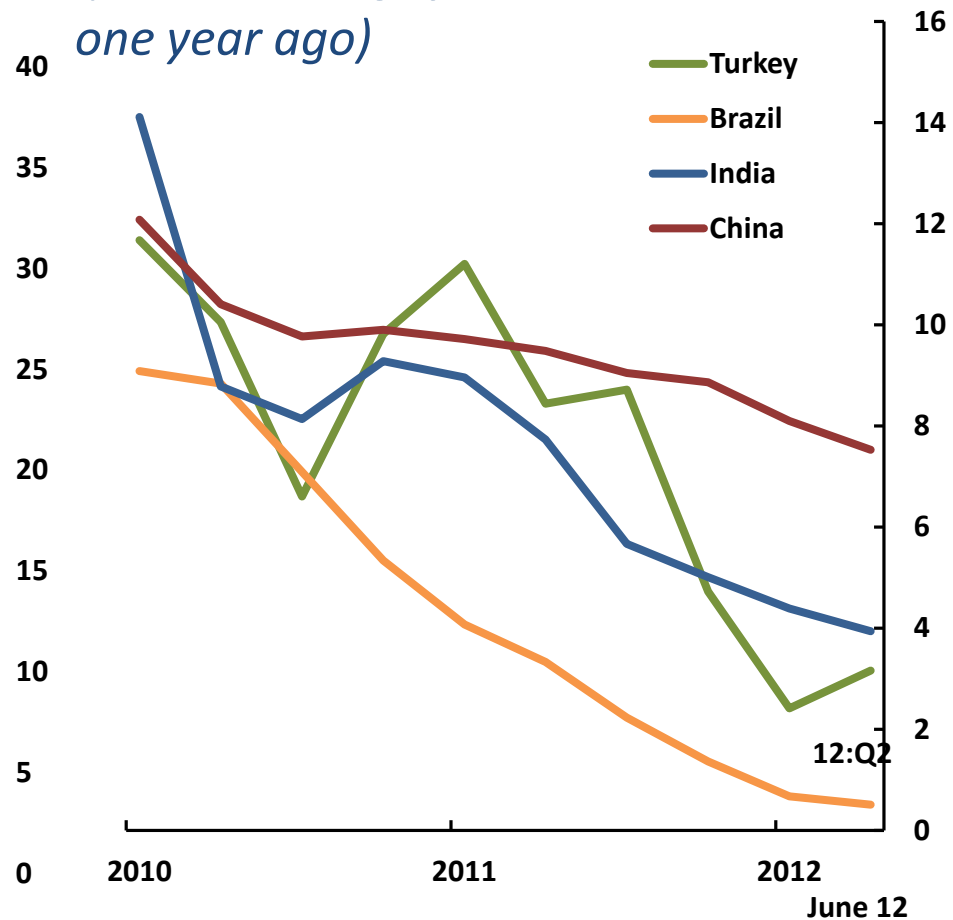
Real Credit Growth

(percent change from one year ago)



Real GDP Growth

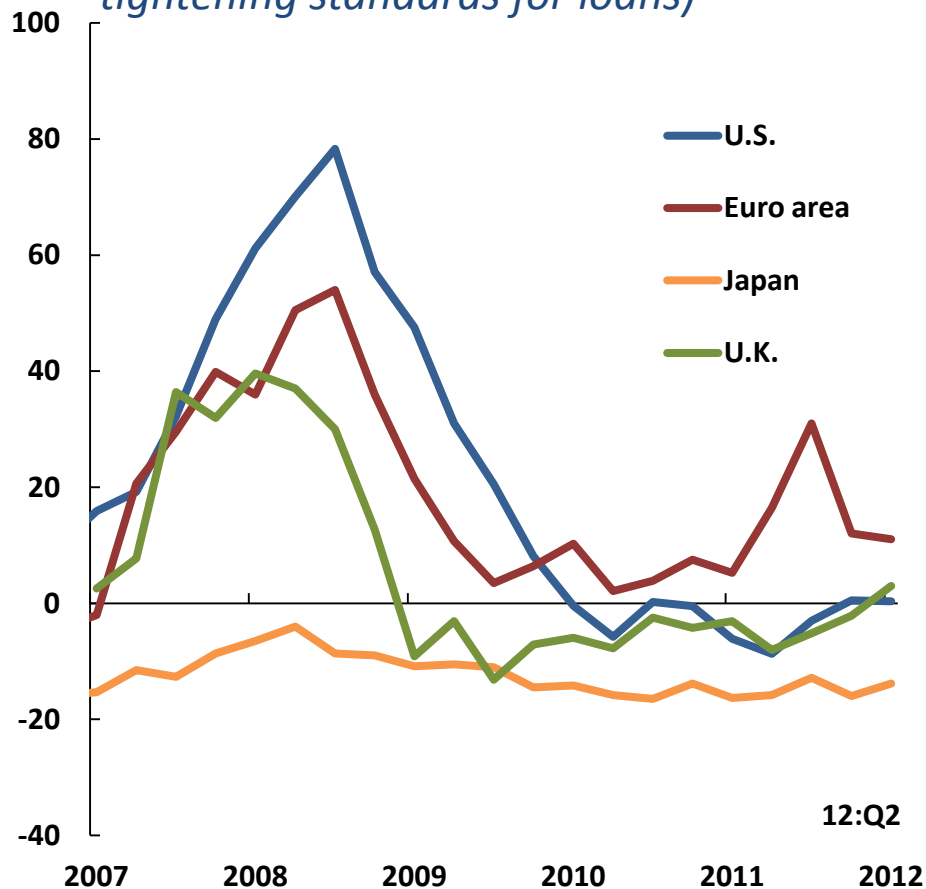
(percent change from one year ago)



Tight financial conditions and fiscal policies in Advanced Economies

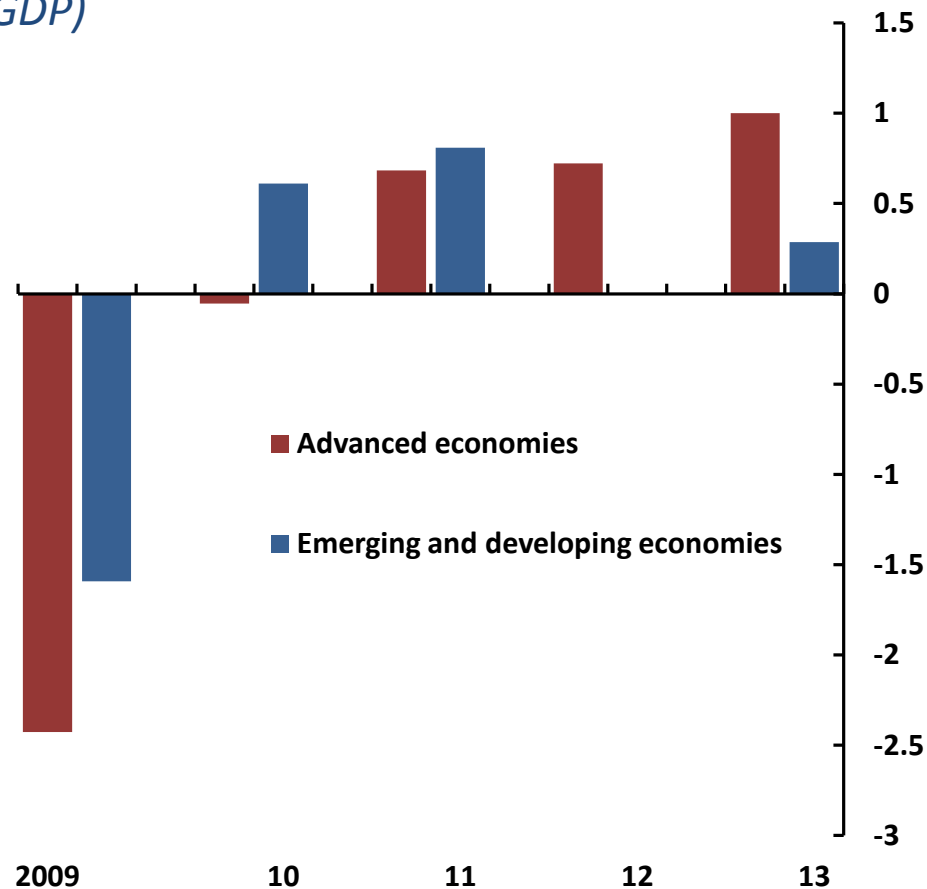
Lending Conditions

(Net percentage of domestic respondents tightening standards for loans)



Fiscal Consolidation

(Change in structural balance as percent of GDP)



Outlook: Weak and Uncertain

Key Assumptions

- Strong euro-area policies improve financial conditions in 2013H2
- US policymakers avoid fiscal cliff, raise debt ceiling

Outlook

- Recovery gradually strengthens but is weaker than in July 2012 WEO and there are large downside risks



Projected Growth Has Declined

IMF World Economic Outlook (WEO) Projections, 2012-13 (Annual percentage Change)

	<u>September WEO</u>		<u>July WEO</u>	
	2012	2013	2012	2013
United States	2.2	2.1	2.0	2.3
Euro area	-0.4	0.2	-0.3	0.7
Japan	2.2	1.2	2.4	1.5
Emerging Asia	6.7	7.2	7.1	7.5
Latin America and Caribbean	3.2	3.9	3.4	4.2
Sub-Saharan Africa	5.0	5.7	5.4	5.3

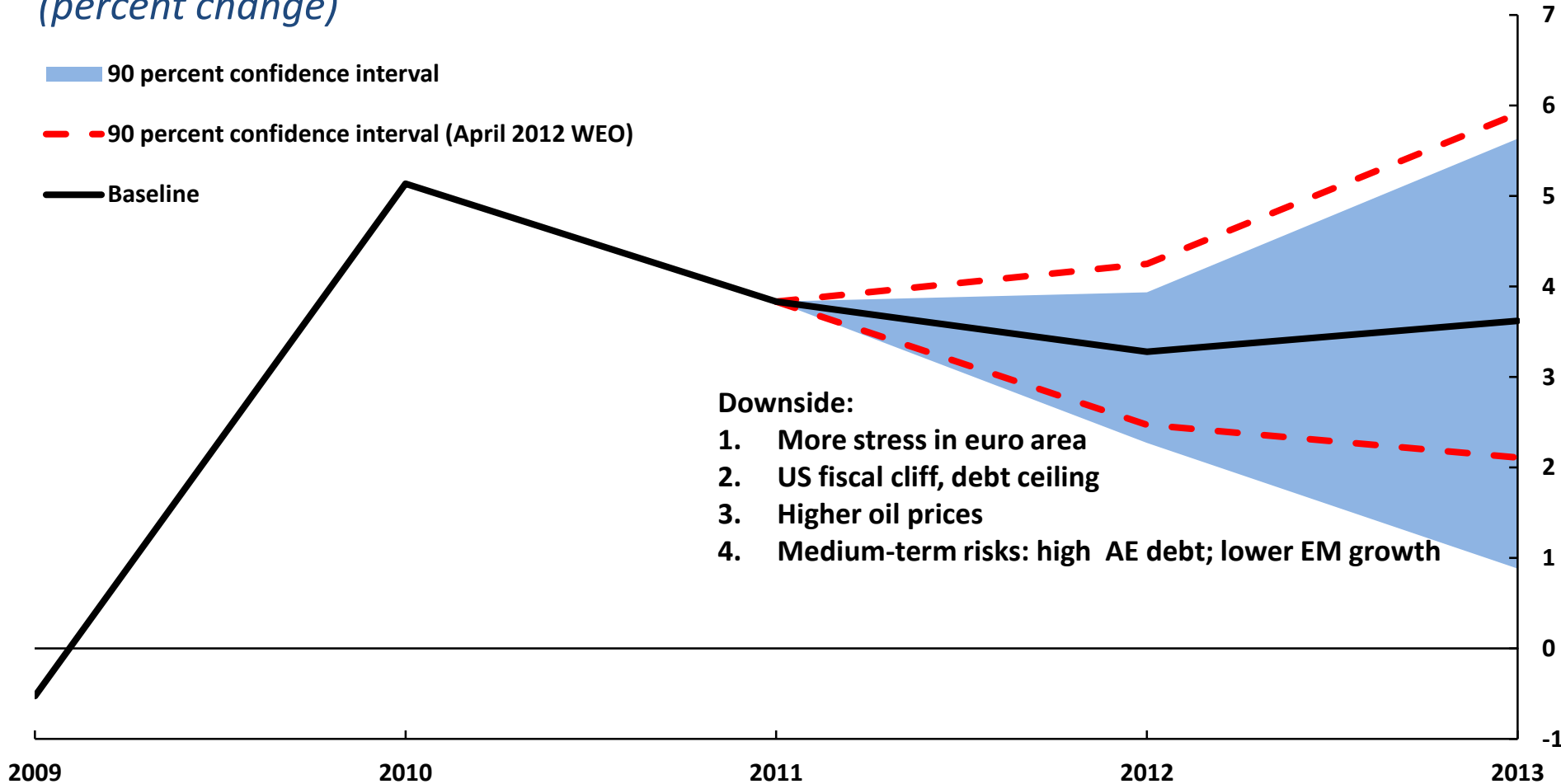
Downside risks are large: 1 in 6 chance of serious global slowdown (global growth < 2 percent)

Prospects for World GDP Growth (percent change)

90 percent confidence interval

90 percent confidence interval (April 2012 WEO)

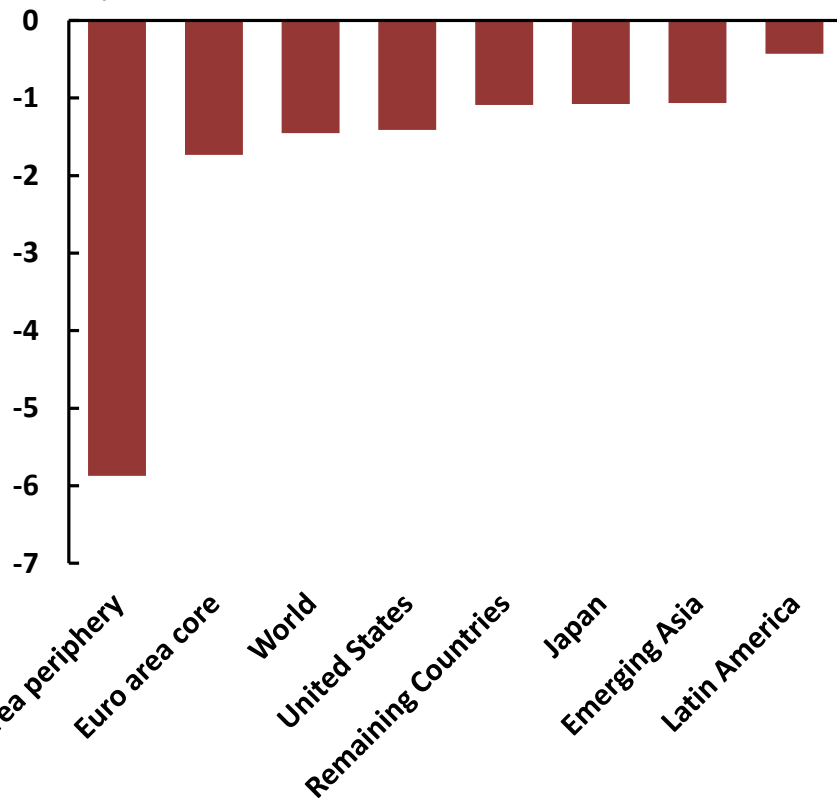
Baseline



Key Risks: Escalating euro crisis and U.S. fiscal cliff

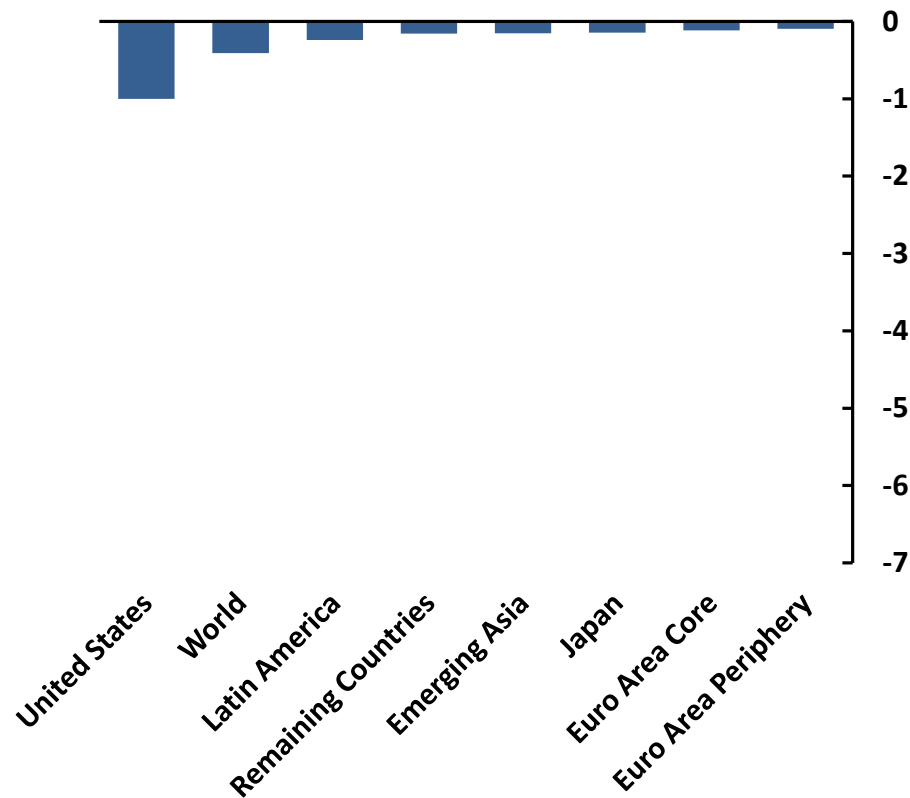
Euro Area Downside Scenario

(Output loss, percent deviation from baseline in 2013)



U.S. Fiscal Cliff

(Output loss, percent deviation from baseline in 2013)



Source: IMF staff estimates

Note: This scenario assumes that sovereign and corporate spreads rise, credit contracts, and periphery governments are forced to front-load fiscal consolidation.

Note: Estimated output losses from fiscal consolidation, with confidence effects and without monetary adjustment.



What Is To Be Done?

- **Removing immediate risks**

- **Euro Area: Restoring confidence**
- **United States: Avoiding the fiscal cliff, raise debt ceiling**

Restoring Confidence in the Euro Area

Periphery	<ul style="list-style-type: none">• Fiscal adjustment• Bank recapitalization/resolution• Structural reforms
Euro Area partners	<ul style="list-style-type: none">• Support adjustment through EFSF/ESM• Help recapitalize banks• Advance euro area fiscal and banking union
ECB	<ul style="list-style-type: none">• Help ease financial conditions in periphery— latest action fully delivers on this front; ball is now in other courts

Advanced Economies: Managing fiscal consolidation



Fiscal

- Gradual and sustained fiscal consolidation anchored by detailed medium-term plan—key for U.S and Japan
- Growth contingency:
 - cyclically-adjusted targets to let automatic stabilizers operate
 - where room, smooth medium-term adjustment

Monetary

- Maintain an accommodative stance

Emerging Markets & Developing Countries: Complex setting—need to calibrate macro stance given potential for real and financial vulnerabilities



Baseline scenario

- **Pause monetary policy tightening or modestly ease**
- **Continue to rebuild fiscal position, especially India, Russia and Turkey**

Downside risks

- **Ease monetary policy further, strengthen macro-prudential measures**
- **Allow fiscal stabilizers to work**
- **If needed and consistent with stronger medium-term growth, deploy fiscal stimulus (e.g. China)**



Summary

- The economic outlook has deteriorated somewhat over the last six months.
- The situation and policy prescription is different in advanced economies and emerging markets.
- Recovery is projected to be slow and risks are high, but appropriate and timely policy actions will produce recovery



Maintaining Growth in an Uncertain World

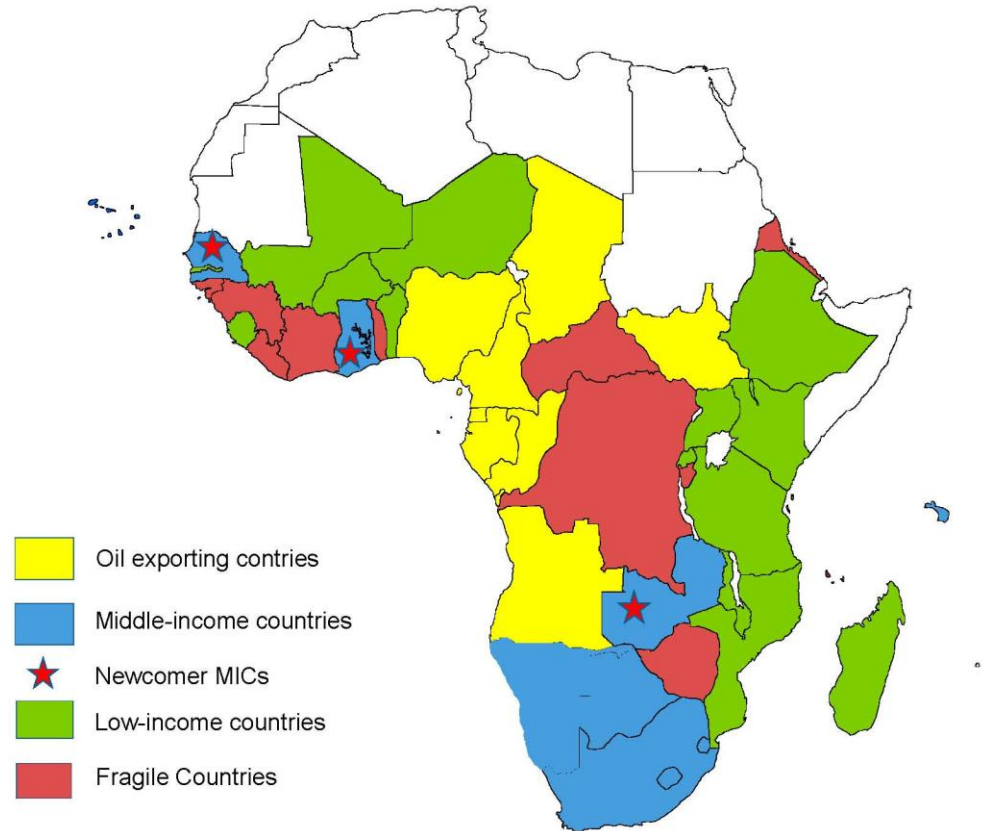
Regional Economic Outlook for Sub-Saharan Africa



Outline

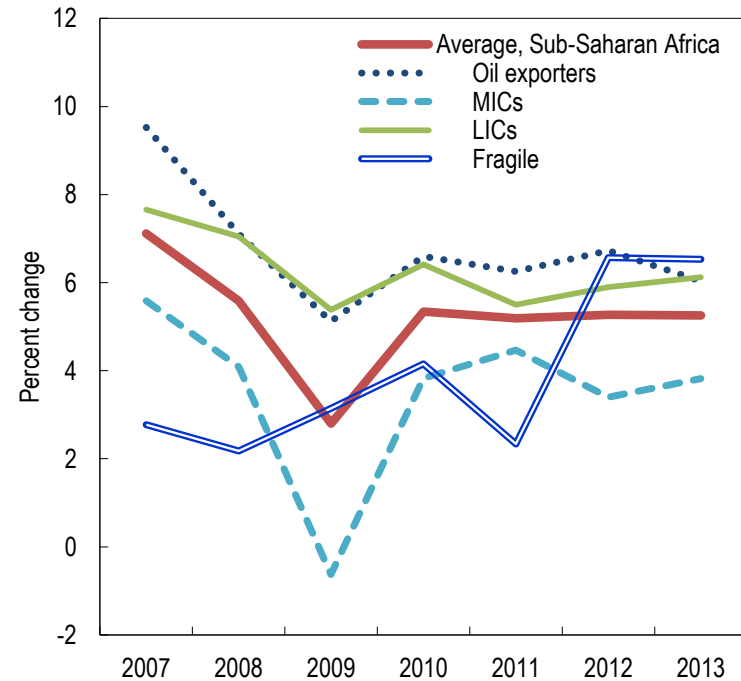
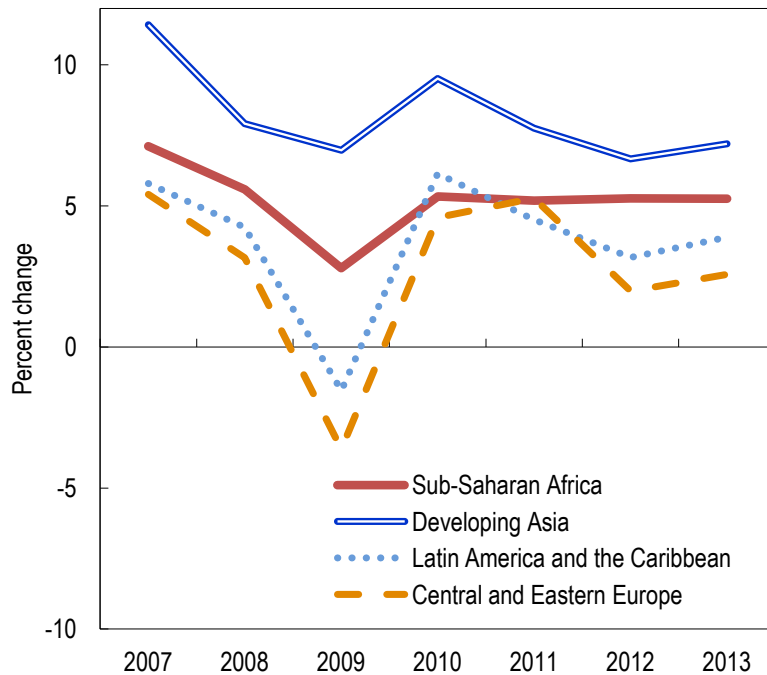
- **Recent Developments and Near-term Outlook**
- **Risks to the Outlook**
- **Policy Choices**

SSA: Country groupings



SSA output growth quite strong, but sizeable variation across country groupings

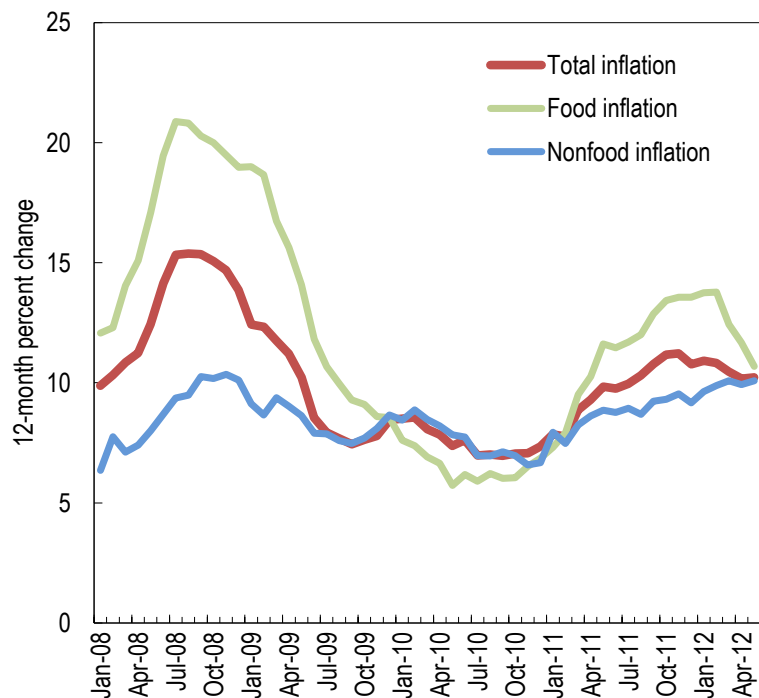
Sub-Saharan Africa: Real GDP Growth, 2007-2013



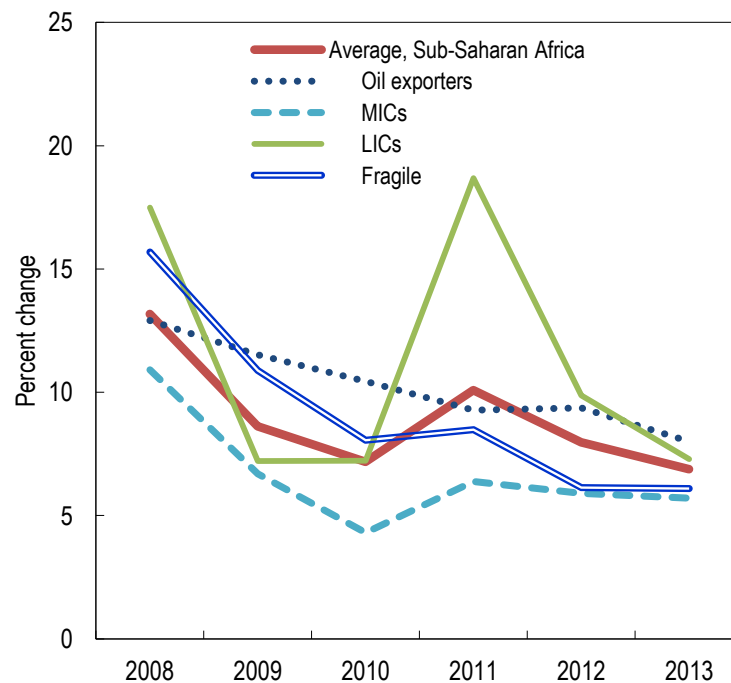
- Domestic demand and investment have provided support
- Recovery from drought and new resource projects too

Inflation: slowing from 2011 levels, although new food price shocks are a risk factor

Sub-Saharan Africa: Food and Nonfood inflation, 2008-2012 May



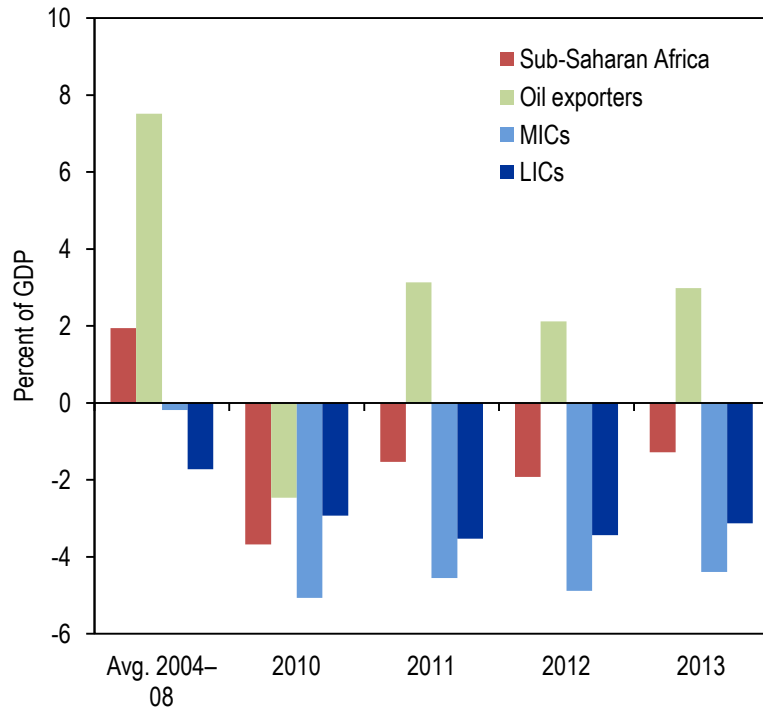
Sub-Saharan Africa: End-of-period CPI Inflation, 2008-2013



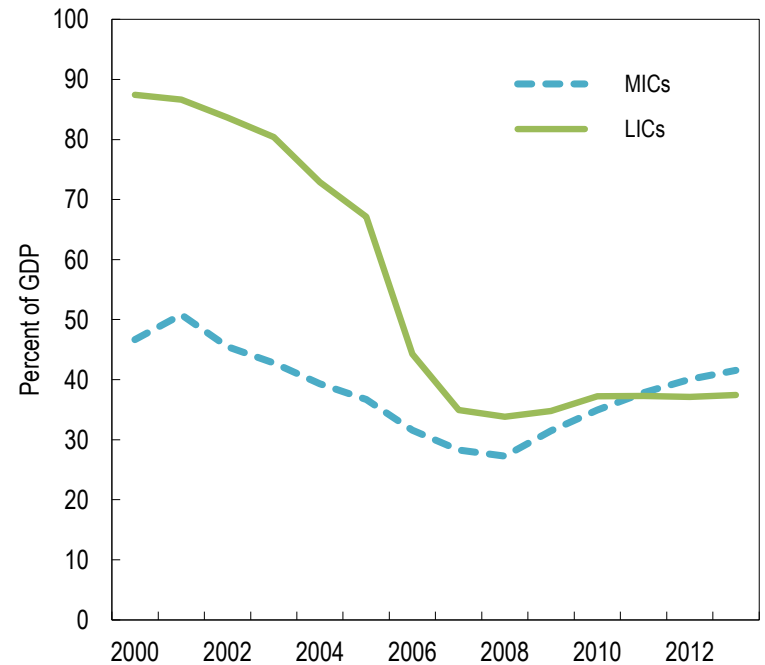
Fiscal deficits remain elevated; debt ratios manageable but rising in several countries



Sub-Saharan Africa: Overall Fiscal Balance, 2004-2013

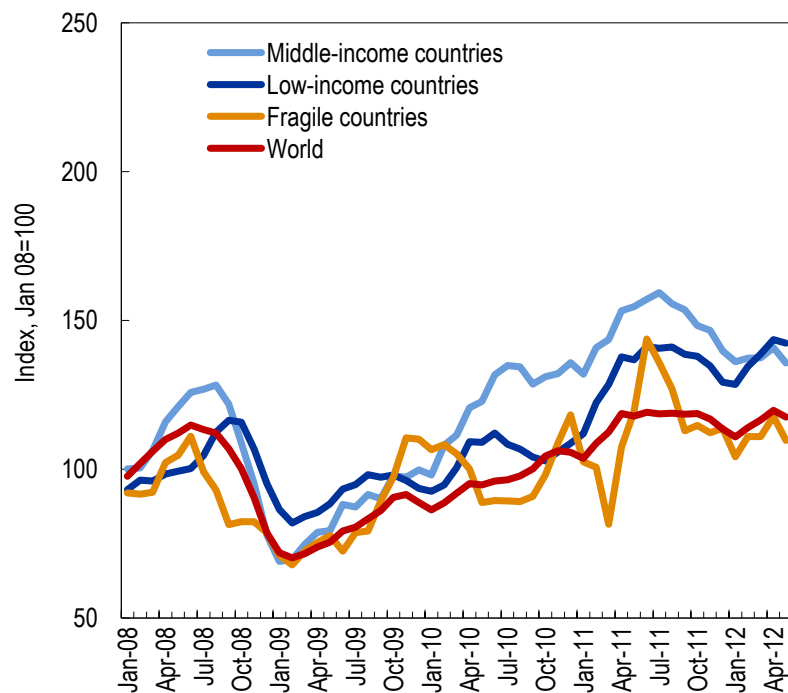


Sub-Saharan Africa: Government Debt Ratios, 2000-2013

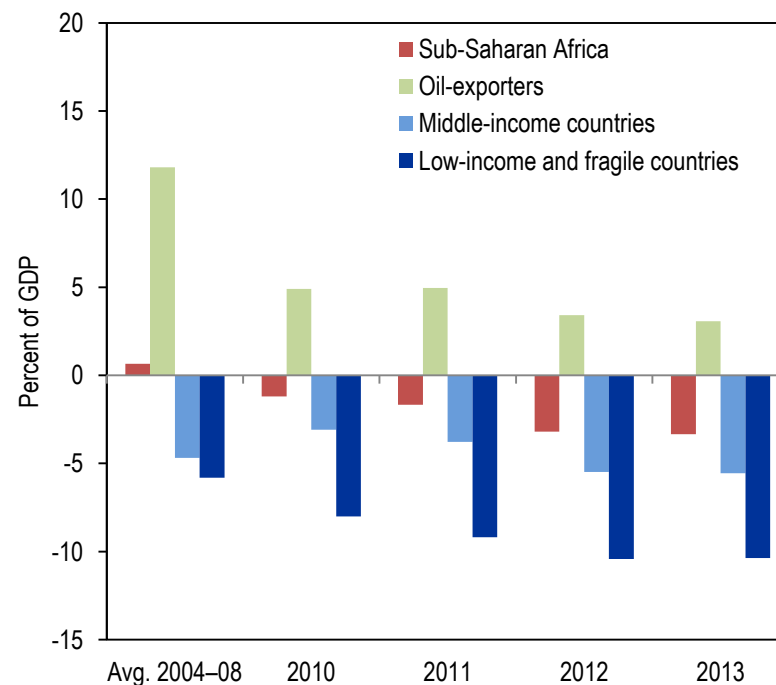


Sluggish external demand contributes to widening current account deficits

Selected Country Groups: Exports (Three-month moving average, value index), 2008-2012 May



Selected Country Groups: External Current Account Balance, 2004-2012





Risks to the Outlook

- **The external environment**
 - The euro-zone crisis
 - The US fiscal cliff
 - Spikes of oil (geopolitics) and food (climate) prices
- **Domestic risks**
 - Policy slippages
 - Deteriorating security conditions/instability

Risk scenario: Intensification of euro area stress in the near term

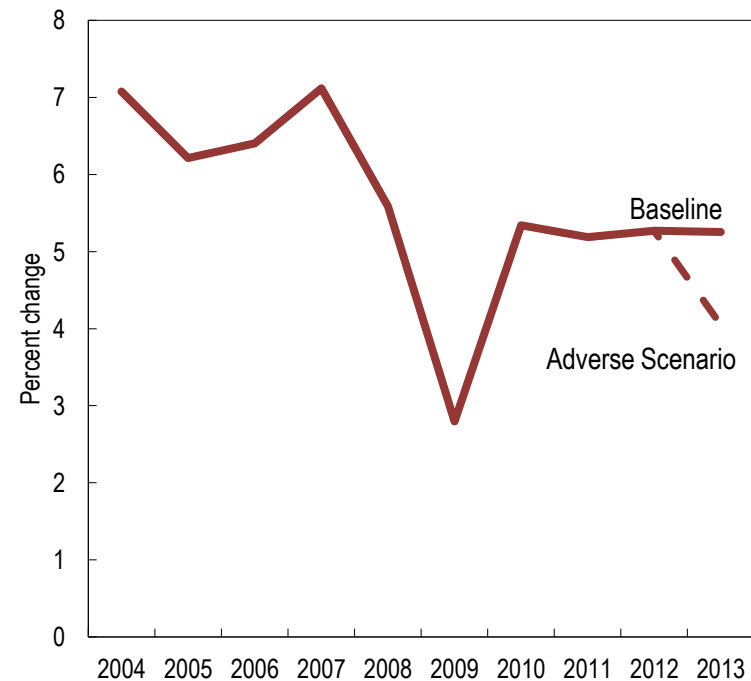
Assumptions :

- Policies deployed in the euro zone fail to calm markets
- Global output lower than the baseline by about 2 percentage points in 2013
- Commodity prices decline by between 8 (non-oil) and 17 (oil) percent

Impact:

- **SSA's growth reduced by 1 to 1.2 percentage points**

Sub-Saharan Africa: Real GDP growth in downside scenario 1, 2004-2013



Is there room for fiscal policy action if needed?



- Fiscal space limited for many LICs and most fragile states
- MICs have some flexibility, but are increasingly constrained

Sub-Saharan Africa: Overall Fiscal Balance, 2004-13

	Debt risk index ¹		Public debt level (2012)	Changes in debt ²
	L/M	H/D		
Sub-Saharan Africa (Total)	35	9	32.4	1.8
<i>Of which:</i>				
Oil-exporting countries	7	0	17.6	-0.2
Middle-income countries	10	1	40.3	12.0
Low-income countries	13	1	36.9	1.9

Sources: IMF, World Economic Outlook Database; and IMF staff assessments.

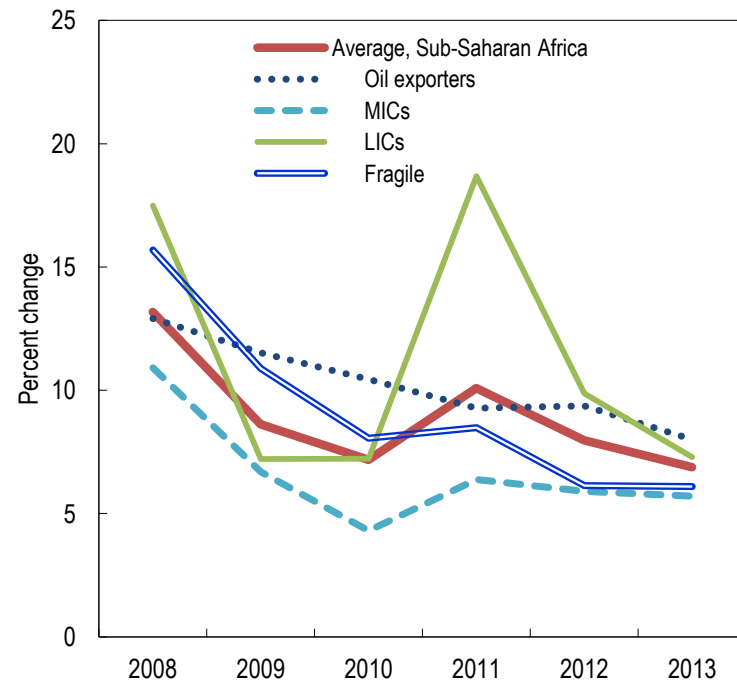
¹L/M indicates low to moderate risk of debt distress; H/D indicates high risk/presence of debt distress.

²Changes from end-2007 to end-2012.

What about room for monetary policy?

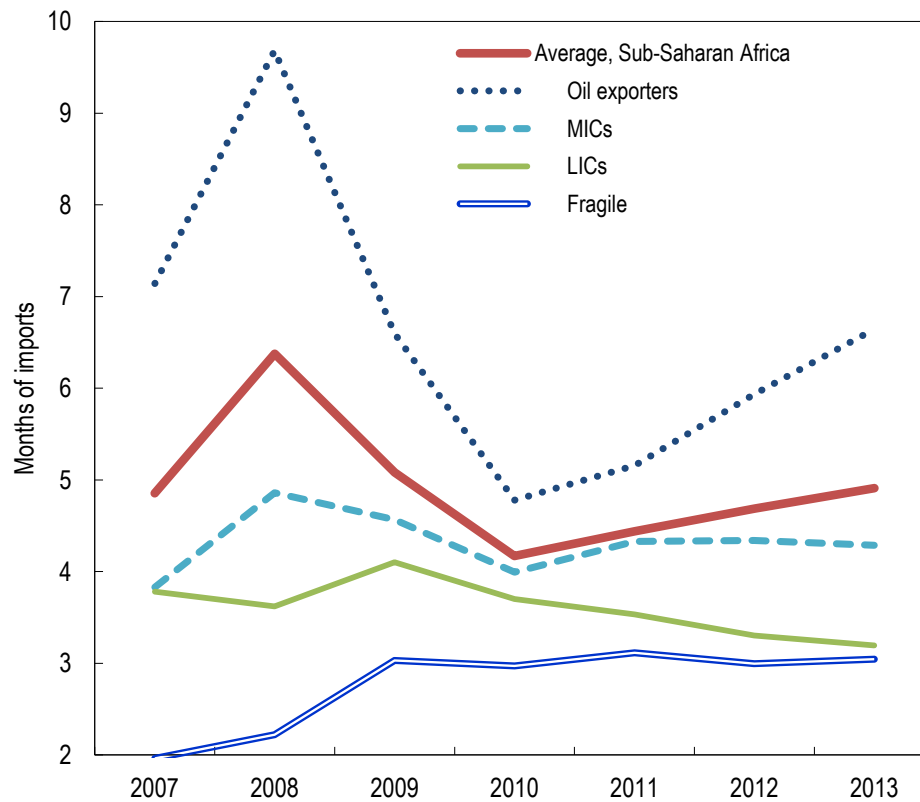
- Lower inflation has created room for maneuver in some cases
- Monetary policy space depends on central bank credibility
- Food price shocks are a risk factor

Sub-Saharan Africa: End-of-period CPI Inflation, 2008-2013



Who has adequate foreign reserves? Significant number of countries with < 3 months of imports

Sub-Saharan Africa: Reserve coverage, 2007-13

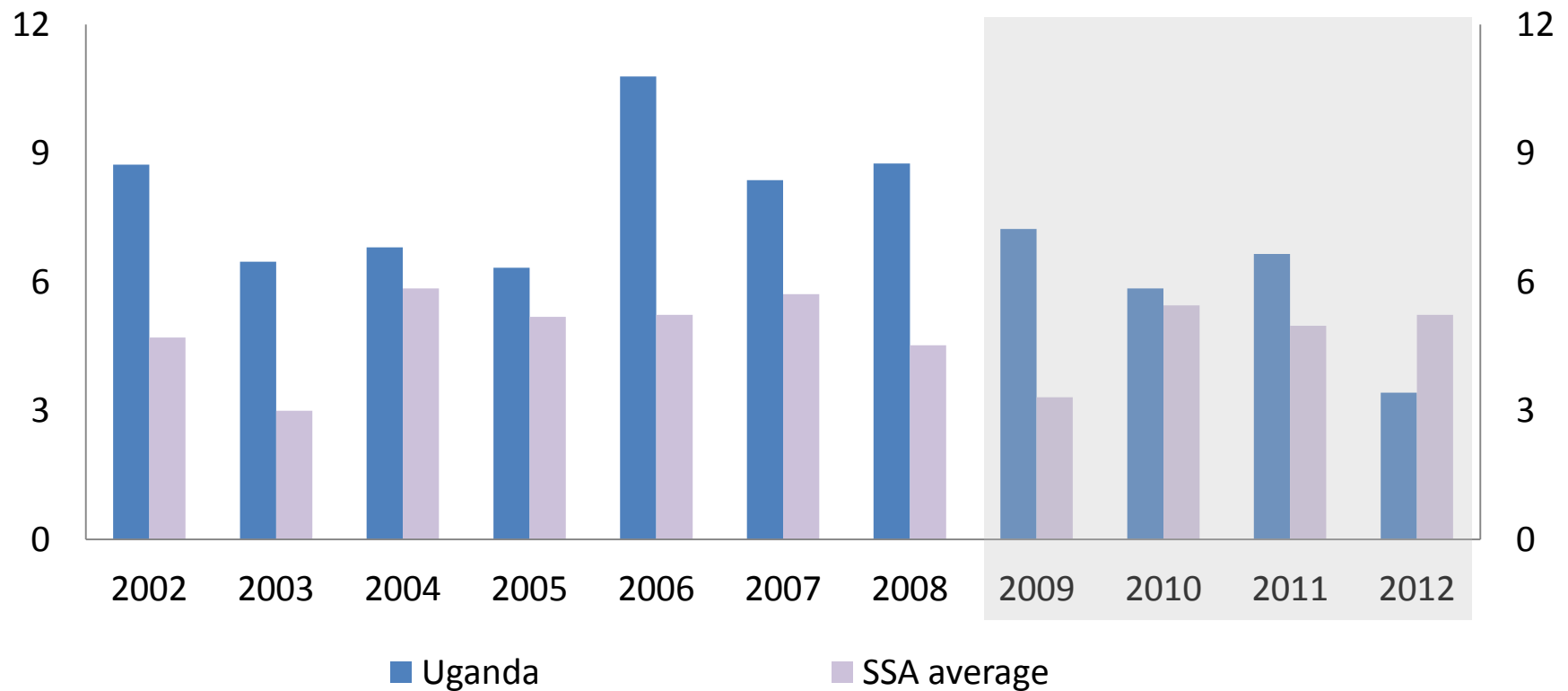




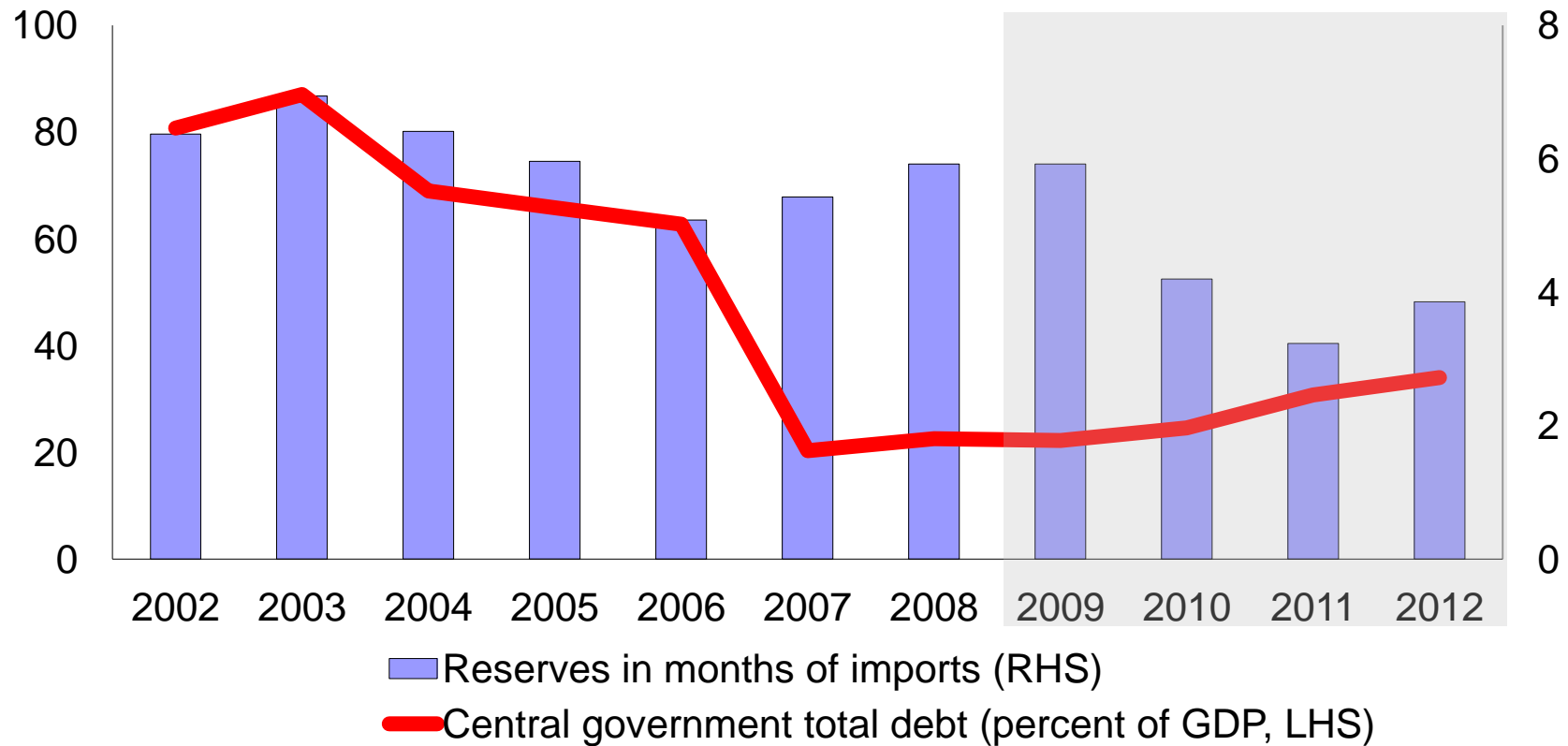
Uganda: Recent Economic Developments and Outlook

Favorable growth performance

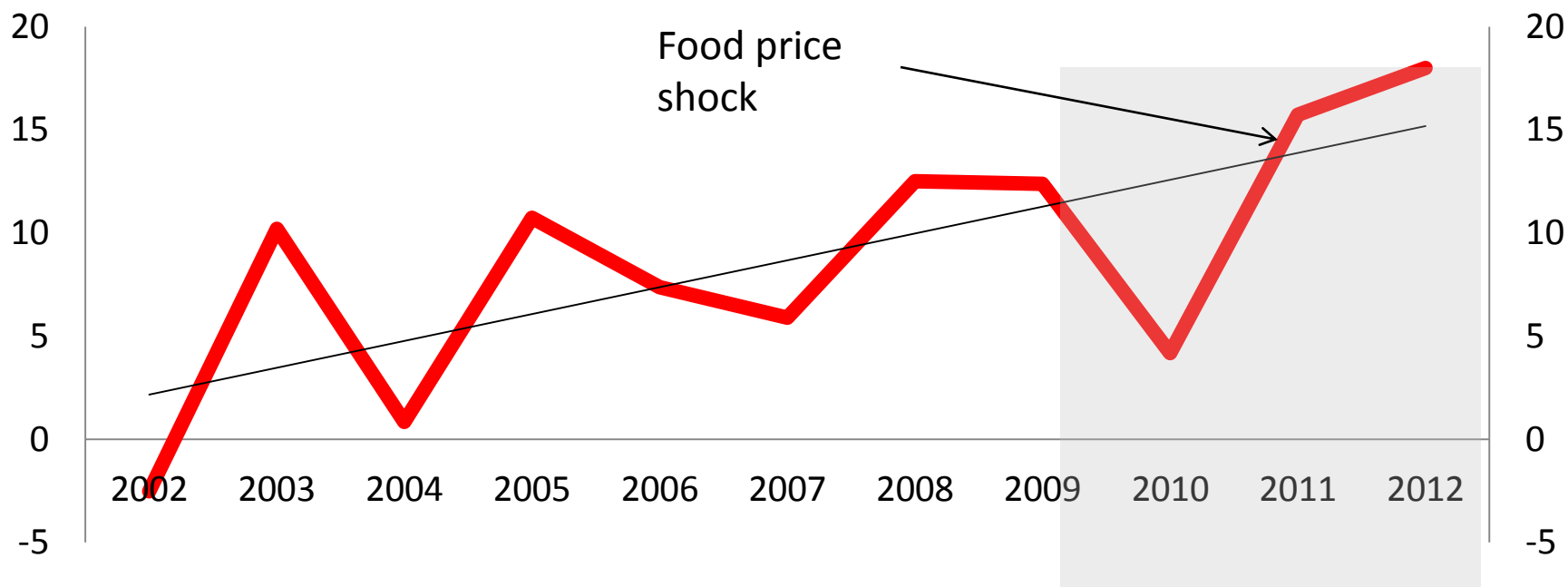
Uganda and SSA: Real GDP growth



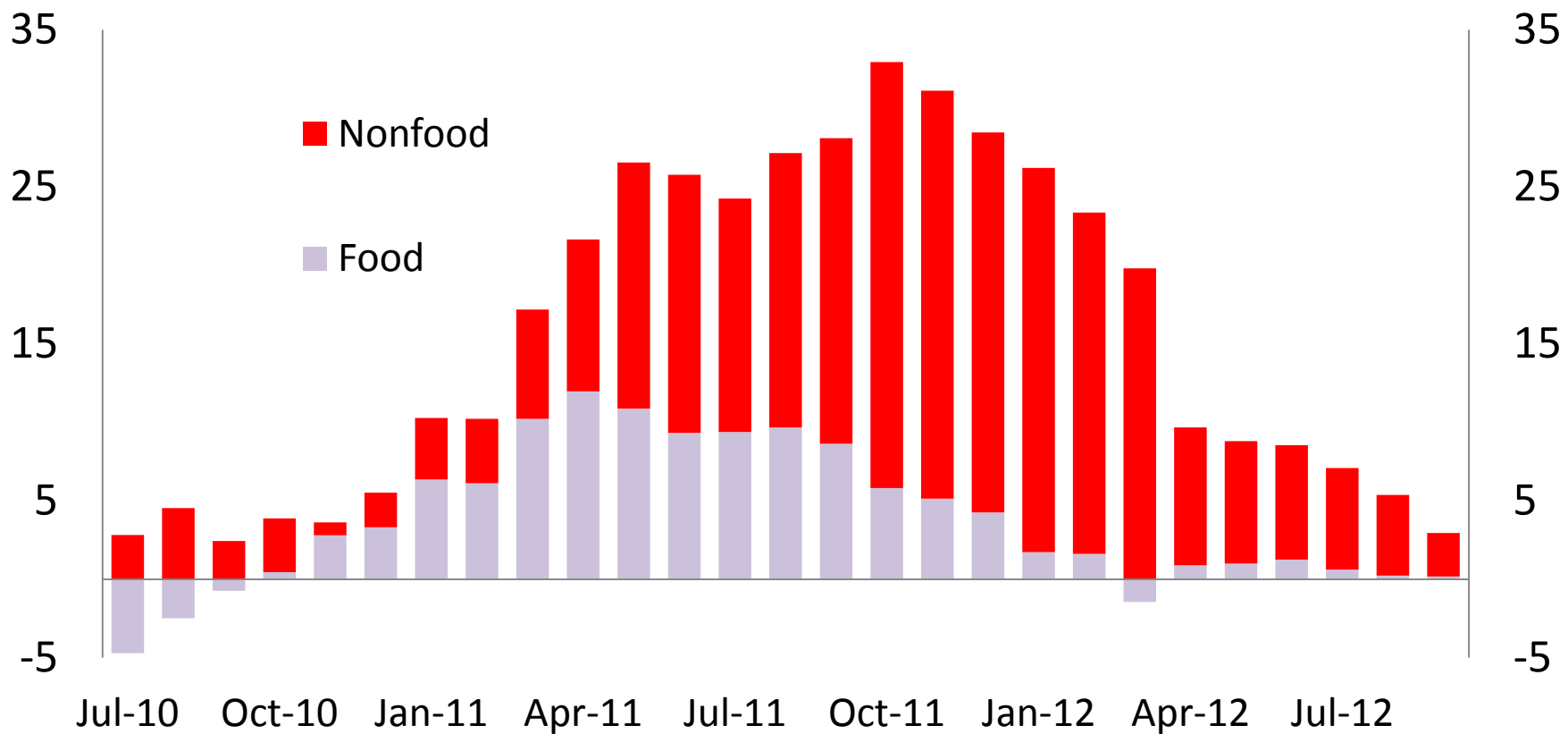
Significant built up of buffers



High and volatile inflation

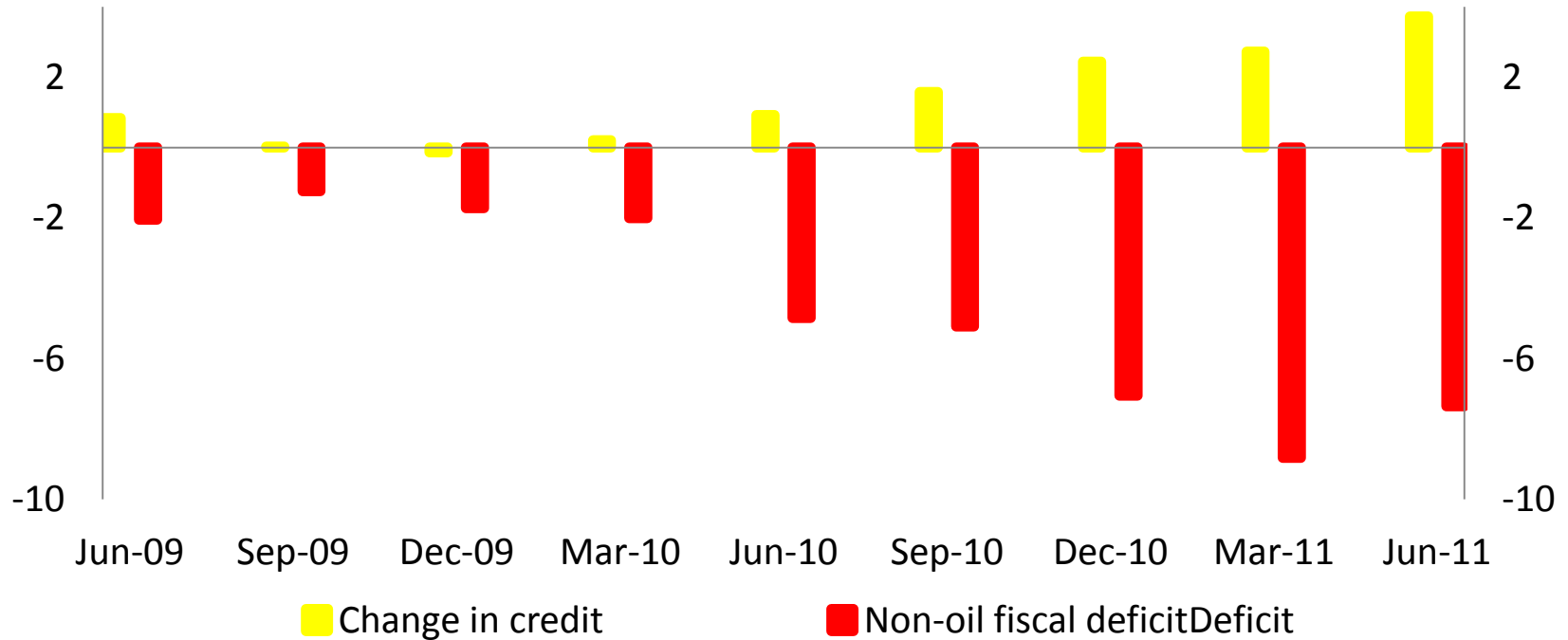


Food and nonfood components of inflation



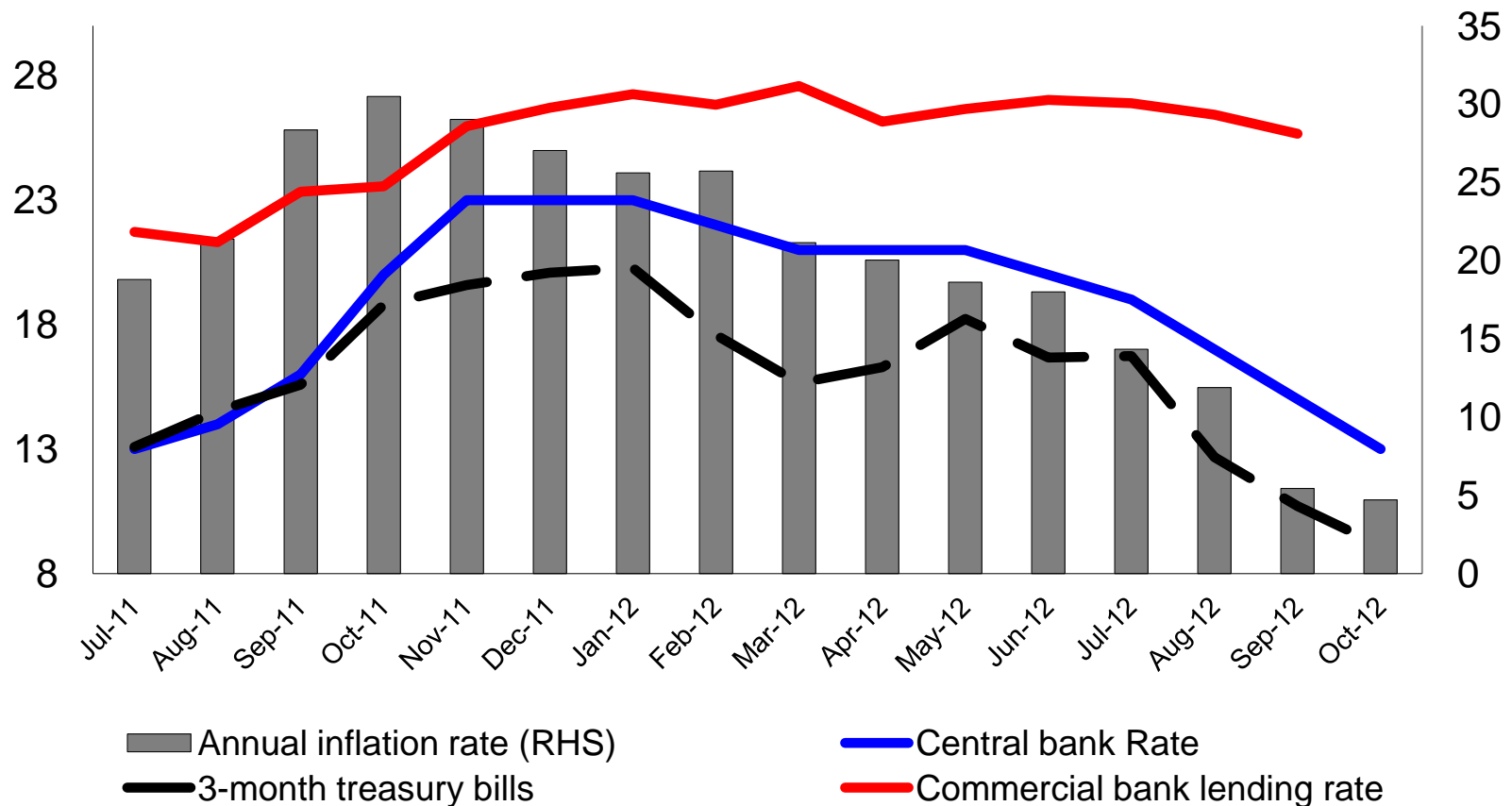
Demand pressures steadily increased

**Non-Oil Fiscal Balance and Change in Private Sector Credit
(Percent of GDP)**



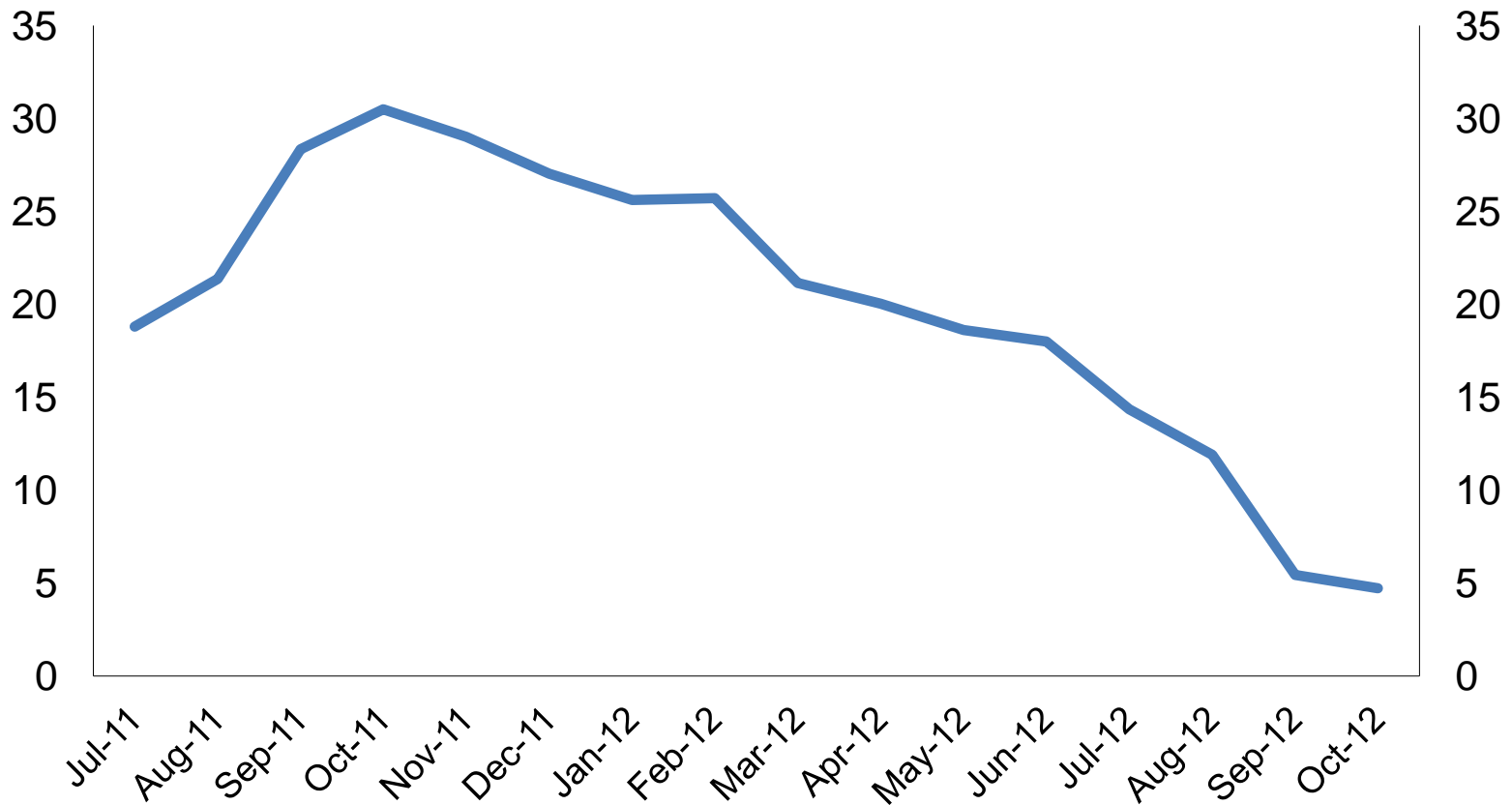
Policy response to high inflation

Uganda: Domestic Interest Rates and inflation

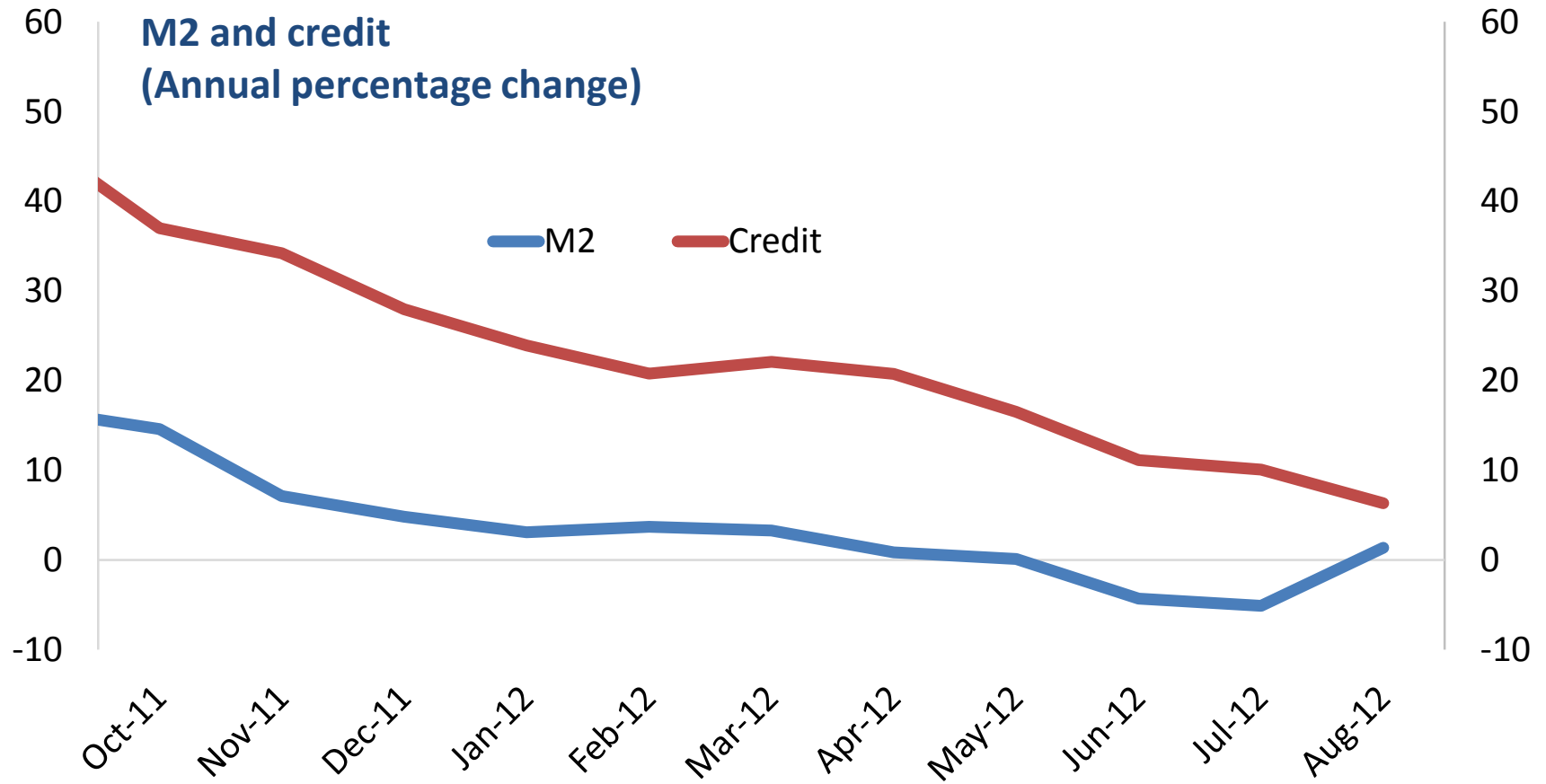


Clear results of anti-inflationary strategy

Uganda: Annual Percentage Change in CPI

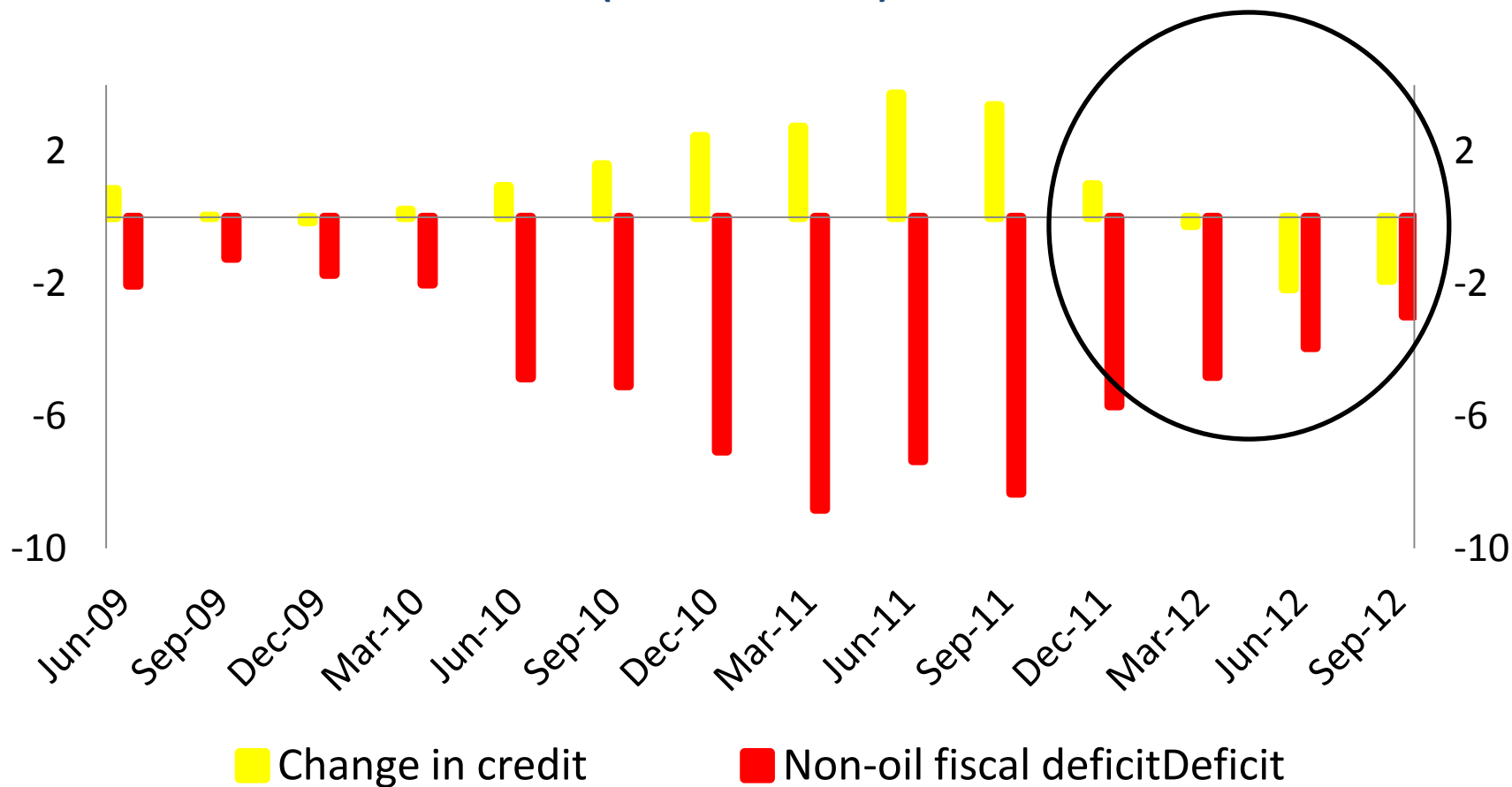


Supported by a contraction in credit growth and money supply



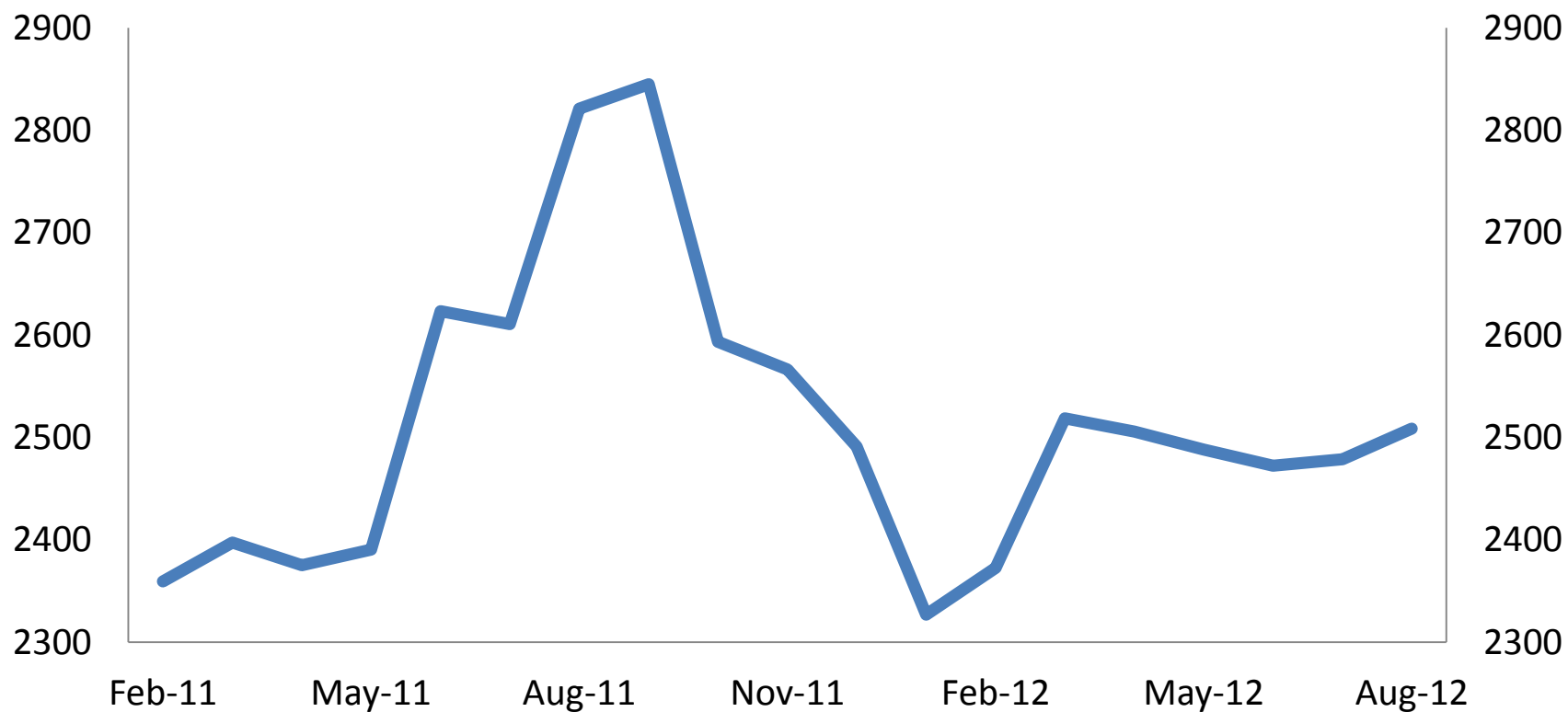
A fall in demand from both public and private sectors

Non-Oil Fiscal Deficit and Change in Private Sector Credit
(Percent of GDP)



And exchange rate flexibility

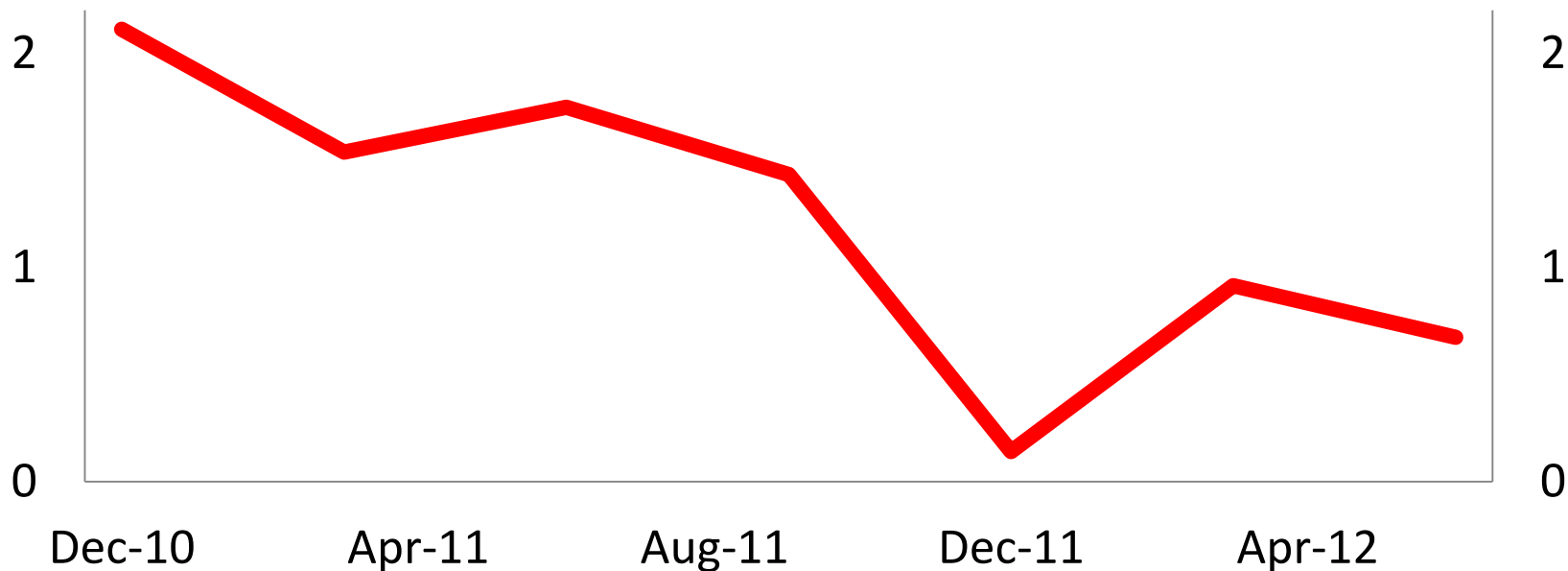
Uganda: Nominal Exchange Rate, Shillings per US Dollar



The contraction of credit and real incomes drove down economic growth



Uganda: Quarterly Change in Real GDP
(Percent)





Policy challenges ahead

- Short term: revive growth while containing inflation
- Structural measures to allow growth to continue into the medium term
- Need to effect a smooth landing into the new low-inflation environment, kick-start growth, and maintain low inflation going forward.



Reviving economic growth soon

- No quick fix
- Private sector recovery
 - ✓ Helped by lower inflation expectations
- Public policy mix
 - ✓ Growth-supportive monetary and fiscal policy
 - ✓ Continued exchange rate flexibility



Medium term challenges

- Increase growth to potential levels
- Make sure that high growth benefits the whole population
 - ✓ Fair tax policy
 - ✓ More investments in human and infrastructure development
- Create a favorable business climate for private investment.
 - ✓ Eradicate corruption



To conclude

- Uganda has enormous potential
 - ✓ Develop agriculture, tourism, extractive industries
- Needs to manage its resources well
 - ✓ Particularly when oil and mining revenues come into stream
- And promote good governance
 - ✓ Crucial to achieve competitiveness and productivity gains



Thank you