

# Macroeconomic challenges to Uganda's post-2015 development strategy

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post-2015”

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# Outline of the presentation

1. Background
2. Ugandan context
3. Fiscal policy
  - Financing needs, options and tradeoffs
4. Sector and trade policy
5. External environment
6. Conclusions

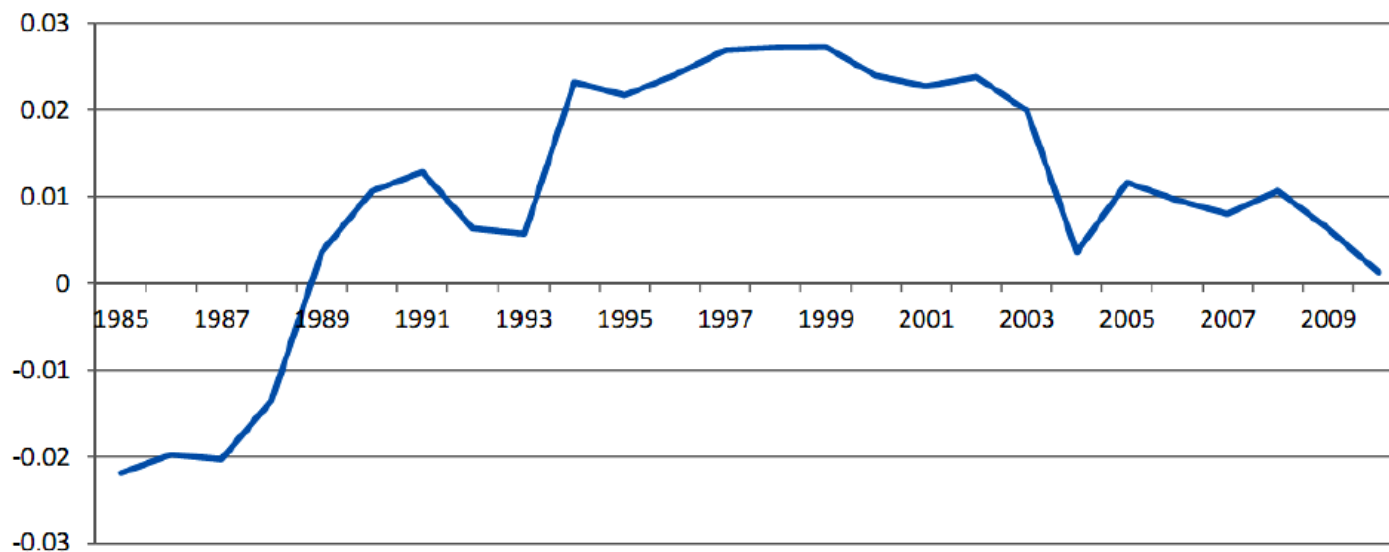
# 1. Background

- MAMS (Maquette for MDG Simulations) is well-suited to development strategy analysis, and can take into account both economic and human development outcomes.
- The model has been calibrated to the Ugandan economy and recently used to inform:
  - The Uganda MDG report for 2013 (thematic focus: Drivers of the MDGs and Uganda's post-2015 development strategy).
  - Uganda's long-term fiscal strategy
- This presentation synthesizes some of the lessons learnt.

## 2. Ugandan context

- Strong growth record since 1990s, but recent slowdown.
  - Structural bottlenecks
  - Global volatility and weak external demand

### TFP growth, 1985-2010



Source: Hassler et al. (2013)

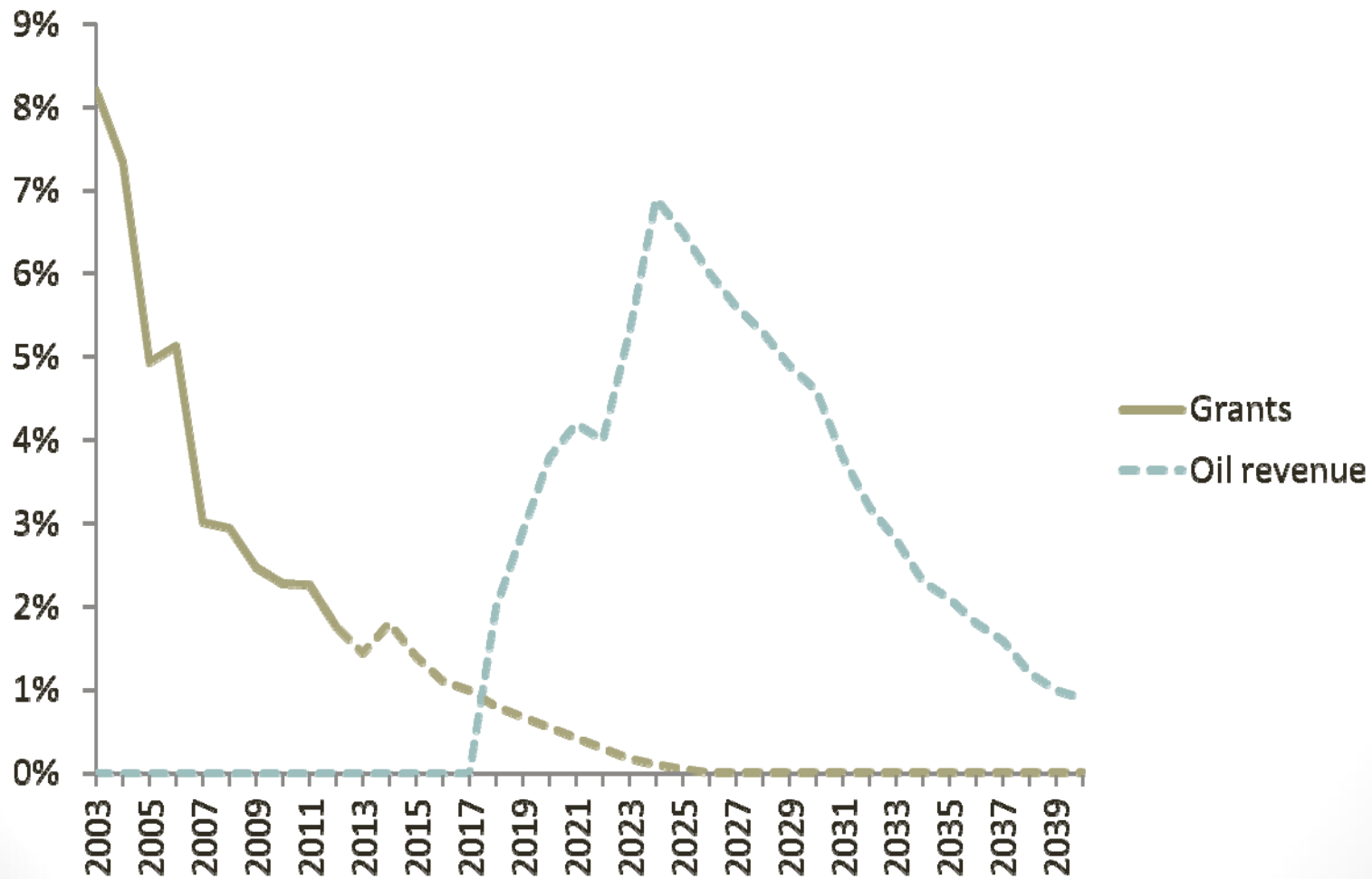
# National development agenda

- Vision 2040 and six five-year National Development Plans, first plan launched in 2010/11
  - Frontload public infrastructure investment
    - Transport, oil refinery, renewable energy, water
  - Service delivery efficiency reforms
  - Support the productive sectors
    - Agricultural productivity
    - Value addition and trade
  - Encourage higher private savings and investment

# Public resources

- Tax revenue low even by African standards
  - Tax effort 12% to 13% of GDP over last decade, despite substantial improvements in tax administration
  - Tax policy reforms planned over next two years (streamline VAT and income tax exemptions)
    - Could generate up to 2% of GDP in additional tax revenue
- A modest oil boom expected during 2020s
  - Production likely to start in 2018
  - Public revenues likely to peak in 2025 at ~7% of GDP
  - Production will decline from 2030, revenue ~1% of GDP by 2040
- Structural decline in aid inflows
  - USD 300 million in budget support suspended in 2012/13

# Grants and oil revenue, % of GDP

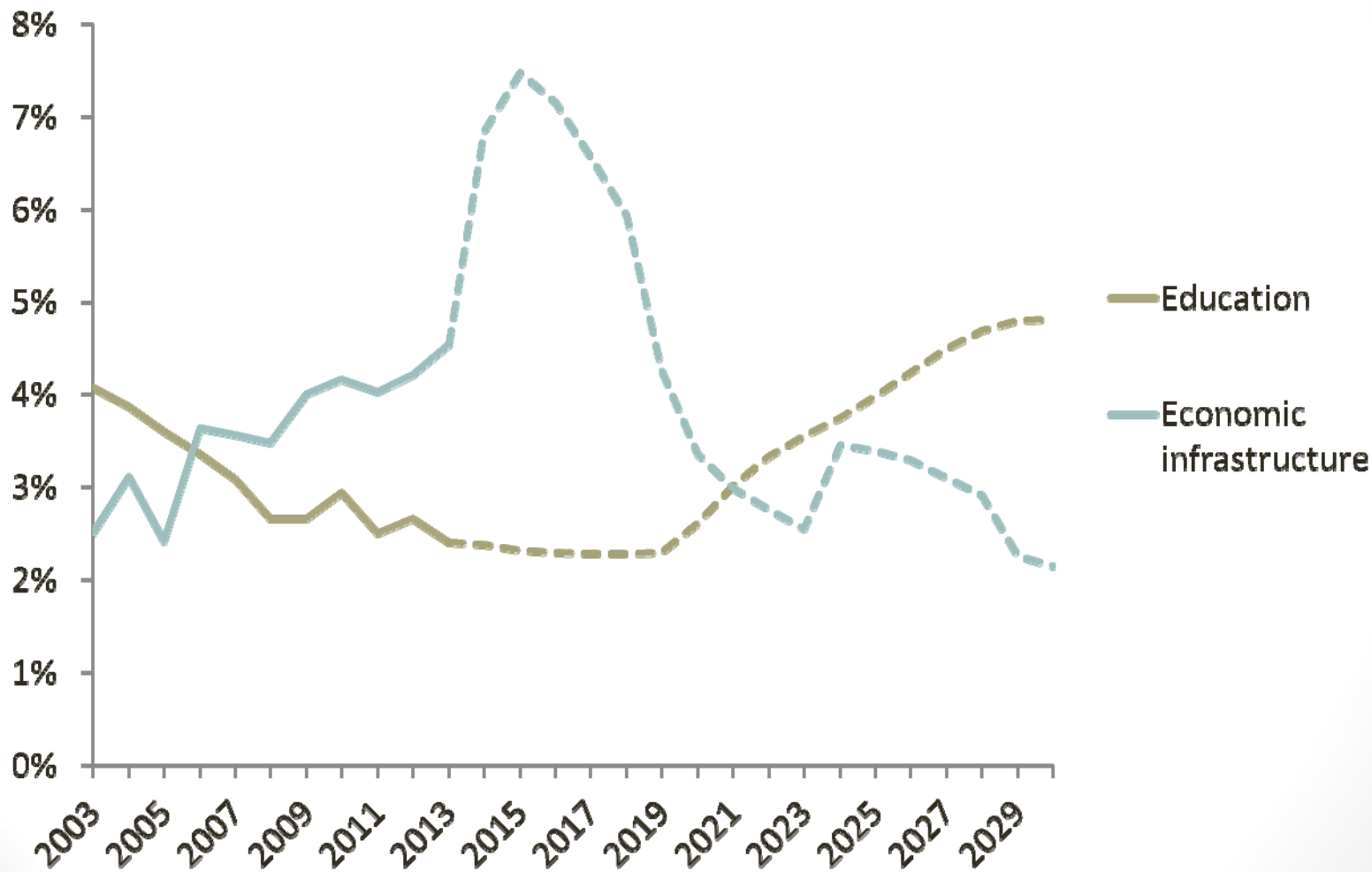


# 3. Fiscal policy

- Financing infrastructure investment main challenge over medium term
  - Estimated infrastructure spending needs ~ 7% of GDP, compared to recent average ~ 4% of GDP.
- Low public debt and prospect of oil revenues means that public investment can be financed sustainably.
  - Public debt (currently 30% of GDP) projected to peak in late 2010s between 40% and 50% of GDP
- Expansion in deficit financing will need to be carefully managed
- Public investment projected to increase GDP growth by around 0.5 percentage points per year.
- Positive net impact on fiscal position over long term.
- Significant acceleration in MDG progress, even without higher spending in social sectors.



# Allocation of public spending, % of GDP



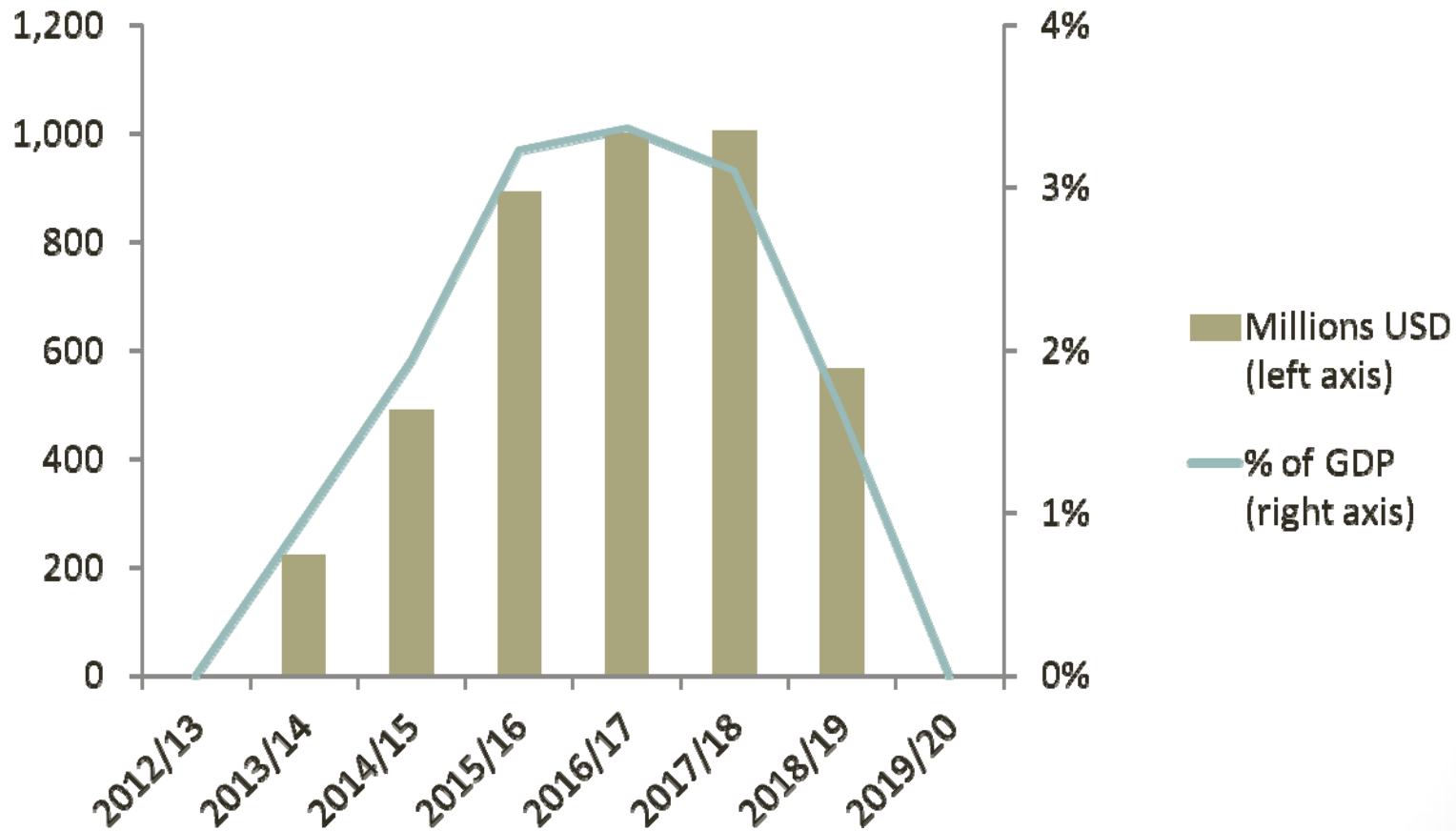
# Financing needs, % of GDP



# Financing options and tradeoffs

- Taxation
  - May reduce private investment and consumption in short term, but likely to be more than offset in long term
  - Main challenges governance-related
- Efficiency measures
  - Substantial progress made in some areas (energy subsidies)
  - Further gains not easy
- Domestic borrowing
  - Risk of raising interest rates and crowding out private investment
  - Could be offset by positive spillovers for financial sector development
- External financing
  - Exchange rate effects limited if used for import-intensive investment projects
    - Growth-dampening effect if used for consumption or wages

# Required non-concessional external financing



Note: This assumes tax reforms are implemented successfully.

# 4. Sector and trade policy

- Vision 2040 emphasizes targeted support for strategic sectors:
  - Industrial clusters and value chains
  - Creation and diffusion of new technologies
  - Regional integration to exploit growing markets and increase competition
  - Land reform
- Productivity growth is projected to have a large impact on the MDG outcomes and to significantly reduce social and environmental pressures.
  - Particularly agricultural productivity

# Sector policies and development outcomes

Change in 2030 value relative to baseline scenario

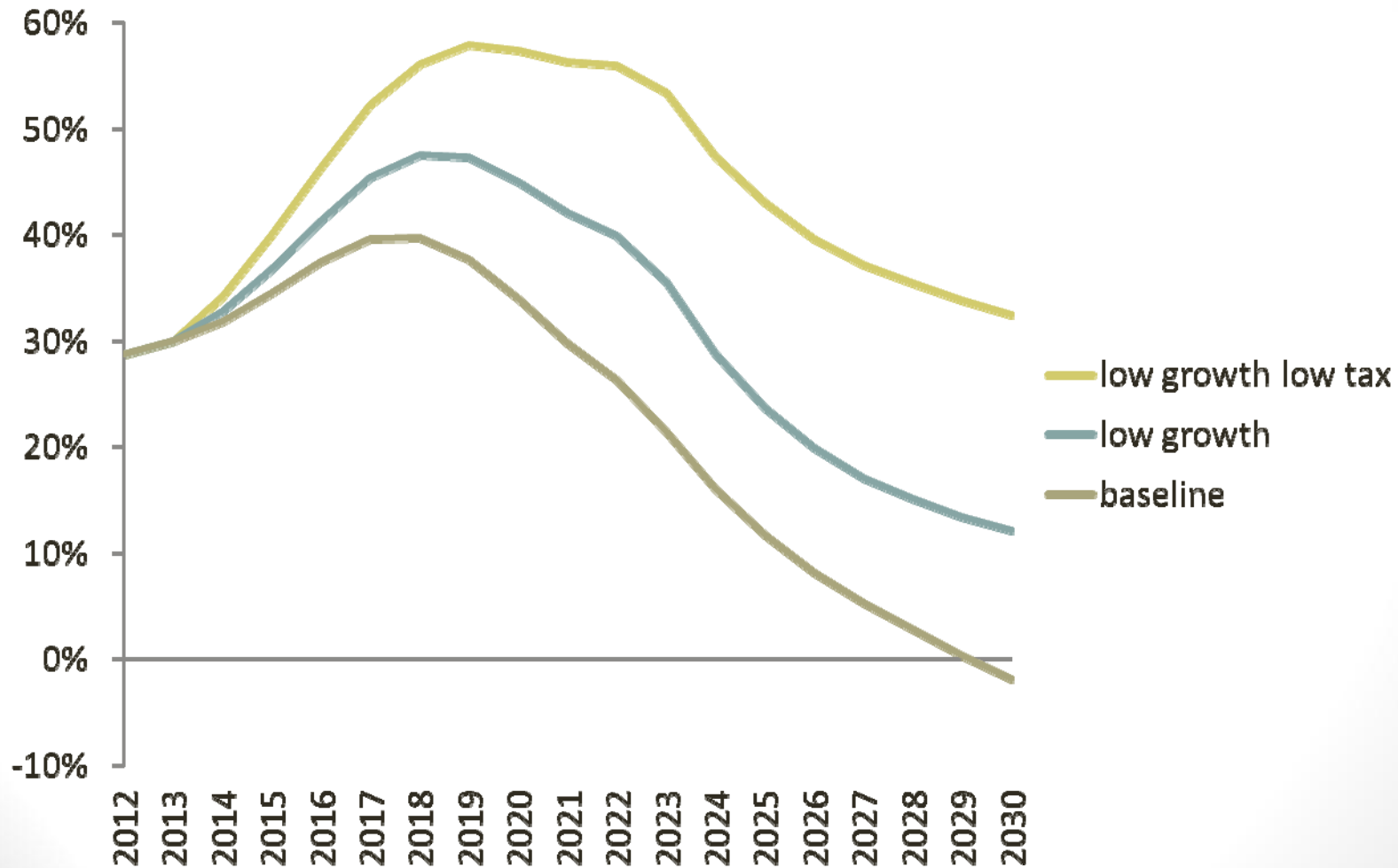
	Agriculture TFP shock (2%)	Manufacturing TFP shock (3%)
On-time primary school completion	2%	1%
Under-five mortality rate	-11%	-4%
Maternal mortality ratio	-9%	-6%
Access to safe water	2%	1%
Access to sanitation	2%	1%
Real GDP per capita	15%	7%
Workers employed in agriculture	-18%	4%
Skilled unemployment rate	-92%	5%
Exports	14%	-1%
Manufactured exports	32%	19%

# 5. External environment

- External economic shocks could significantly slow Uganda's economic and human development
  - Particularly shocks to agricultural productivity (climate change)
- But Uganda's optimal development strategy does not depend heavily on external economic conditions
  - Economic, fiscal and human development returns of public investment will remain high, and become even more needed in a low-growth environment
- Lower growth will make financing more difficult
- Simulate a weakening in external demand:
  - A 30% reduction in world price of Uganda's exports
  - Estimated to reduce growth by 1 percentage point a year

# Fiscal sustainability under low-growth conditions

Net public debt, % of GDP





# 6. Conclusions

- The tradeoffs between economic, fiscal, human development and environmental objectives are currently minor
  - Policy makers do not face a stark choice between economic growth, the MDGs, or the environment
- Uganda's post-2015 development strategy can accelerate economic growth, structural change and human development and simultaneously relieve environmental and social pressures

# Conclusions, cont.

- But implementation of this strategy faces a number of challenges:
  - Access to external finance
  - Fiscal-monetary coordination
  - Conservative/short-term mindsets
  - Budget credibility
  - Oil revenue management
  - Public-private partnerships
  - Governance issues (tax, land reform)

Thank you