



# COVID-19 MACROECONOMIC IMPACT

## Uganda: Performance, Near-Term Outlook and Prospects for Recovery in 2021

Dr. Albert Musisi

Ministry of Finance, Planning and Economic  
Development, Uganda

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# Projections predicted a severe and unprecedented health and economic crisis for countries in Sub-Saharan Africa (SSA), including Uganda

## ❖ Main reasons

- i. Weak healthcare systems – outbreak of the virus would overwhelm existing capacity
- ii. Severe contraction in the global economy and tighter financial conditions – with spillovers to SSA countries.
- iii. Collapse of commodity/oil prices and dependency on a particular sector e.g. Tourism or particular export product e.g. oil for foreign exchange.
- iv. Large informal sector/wide-spread informality in SSA countries making containment measures and targeted fiscal policies difficult to implement–resulting into severe consequences of the pandemic on the health sector and the economy.
- v. Limited fiscal space (budgetary space) - resulting into inadequate policy response.



## Growth Projections: Global and SSA Countries

Year (Calendar)	2020	2021
Global Economic Growth (%)	-4.9	5.4
Sub-Saharan Africa (SSA) Growth (%)	-3.2	3.4

Source: International Monetary Fund (IMF) June 2020 Update

- i. Global economy projected to contract by -4.9% in 2020. -3.2% in Sub-Saharan Africa in 2020
- ii. Slower/Gradual recovery for SSA countries compared to recovery in world growth.
- iii. However there are differences in economic outlook in individual SSA countries .



**How has Uganda performed so far, what is the near-term outlook and what are the Prospects for 2021 and the medium term?**



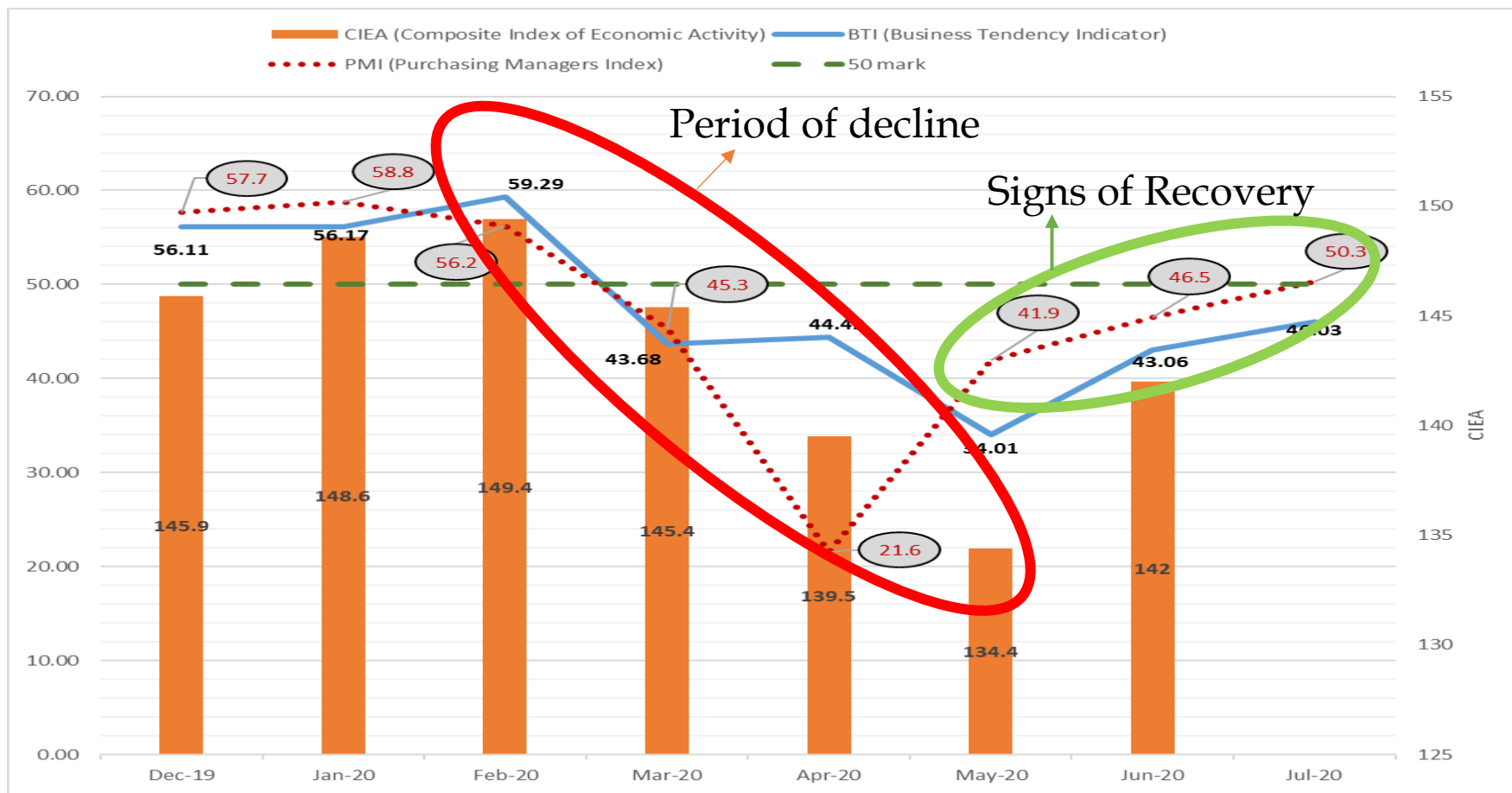


## Uganda's Economy expected to be affected through the following main transmission channels

- i. Effects originating from global economic downturn e.g**
  - Reduction in remittances from Ugandans living abroad
  - Falling international demand (hence decline in export revenues, etc.)
  - Decline in tourism receipts, and Foreign Direct Investment (FDI)
- ii. Effects arising from lockdown policies (domestic and international)**
  - Domestic lockdown measures needed to curtail the spread of the virus – stopping people from working (Job losses) and affecting livelihoods (esp. Service sector categorized as non-essential such as bars and restaurants)
  - Limitations on international transport (travel) – Disrupting supply chains, exports, imports, including imported inputs
- iii. Hence Supply and Demand side effects on domestic economic activity and consequently on household incomes/demand.**



## Economic Activity so far: Sharp decline, but promising signs of recovery.(Monthly indicators of economic activity)





**The Covid-19 Pandemic has also posed some challenges for the Fiscal, External and Monetary and Financial Sectors**





# Fiscal Sector - The pandemic has affected Government's fiscal position

**Domestic revenues far below target while spending needs increased**

- i. Revenue collections declined significantly especially in the 3<sup>rd</sup> and 4<sup>th</sup> Quarter of FY 2019/20 due to the pandemic and lock-down policies.
- ii. Increase in critical spending:
  - health sector,
  - supporting sectors to enforce containment measures, e.g. police (security)
  - required financing to implement governments fiscal response to the economic shock.
- iii. Widening of the Fiscal Deficit from 4.9% in FY 2018/19 to 7.2% in FY 2019/20
- iv. Increase in the debt to GDP ratio, from 35.4% in FY 2018/19 to 40.2% in FY 2019/20. (Debt Threshold 50% of GDP).





# Fiscal Sector - The pandemic has affected Government's fiscal position (cont'd...)

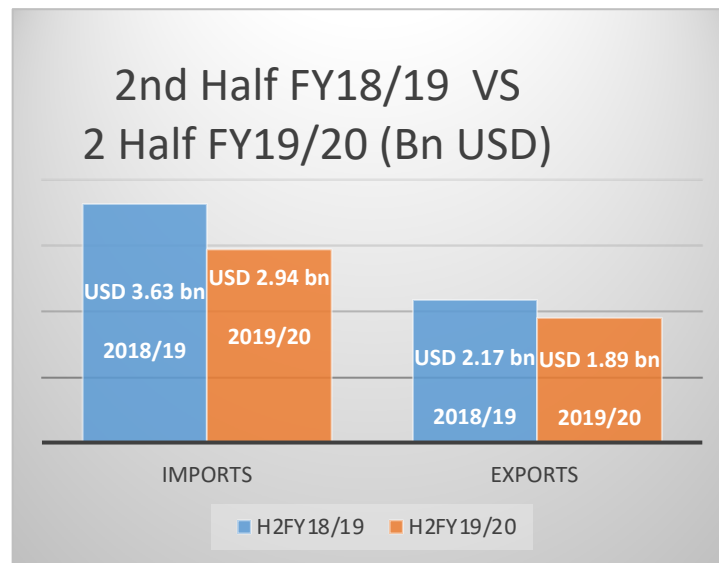
Domestic Revenue FY 2019.20 (Bn. Shs)	Budget	Outturn	Shortfall
First Quarter (Q1)	4,533.24	4,036.91	496.32
Second Quarter (Q2)	5,572.39	5,075.05	497.34
Third Quarter (Q3)	4,929.22	4,339.56	589.66
Fourth Quarter (Q4)	5,611.63	3,834.33	1,777.30
<b>Total</b>	<b>20,646.47</b>	<b>17,285.86</b>	<b>3,360.61</b>
Grants	1,899.95	1,156.39	743.56

As % of GDP	2018/19	2019/20	2020/21
Domestic Revenue	12.7%	12.5%	12.8%
Grants	0.9%	0.8%	1.2%
Expenditure	18.5%	20.5%	23.8%
Fiscal Deficit (including grants)	-4.9%	-7.2%	-9.8%
Nominal Debt	35.4%	40.2%	47.5%





# External Sector - The pandemic has exposed external sector vulnerabilities.



➤ Slump in global demand and disruption in the supply chain resulted in decline in both exports and imports. Recovery in May and June.

➤ However, there was a bigger decline in imports than exports resulting into a reduction in the trade deficit from USD 2.87bn in FY 2018/19 to USD 2.34bn in FY 2019/20.



## External Sector (contd..) - Significant fall in FDI and Tourism receipts in the 2<sup>nd</sup> Half 2019/20. Decline in remittances but not as bad as earlier projected.

Million USD		1st Half of Year (July - December)	2nd Half of Year (Jan - June)	Total (Whole Year)
<b>Foreign Direct Investment (FDI)</b>	FY 2018/19	527.51	689.60	1,217.11
	FY 2019/20	576.62	411.62	988.23
	Difference	49.11	<b>(277.98)</b>	<b>(228.87)</b>
<b>Remittances</b>	FY 2018/19	776.61	592.44	1,369.05
	FY 2019/20	832.00	528.61	1,360.61
	Difference	55.39	<b>(63.83)</b>	<b>(8.44)</b>
<b>Tourism</b>	FY 2018/19	523.50	590.76	1,114.26
	FY 2019/20	591.56	226.02	817.57
	Difference	68.05	<b>(364.74)</b>	<b>(296.69)</b>

- Decline in FDI by 40% in the 2<sup>nd</sup> Half of 2019/20 compared to the same period in 2018/19
- Decline in Tourism receipts by 62% in the 2<sup>nd</sup> Half of FY 2019/20 compared to the same period in 2018/19.
- However the decline in remittances is much lower than earlier projected. Remittances fell by 11% in the 2<sup>nd</sup> Half of 2019/20 compared to the same period in 2018/19.



## Impact on Monetary and Financial Sector

- i. Earlier assessments of likely impact indicated that the pandemic would lead to:
  - high exchange rate depreciation,
  - high inflation and increase in interest rates.

Just like it was in the Global Financial Crisis of 2008
- ii. However average inflation remained low and below the 5 percent target in FY 2019/20.
- iii. Despite a relatively sharp depreciation of the exchange rate between March and May 2020, the Uganda shilling remained resilient registering mild appreciation of 0.6% in FY 2019/20.



## Impact on Monetary and Financial Sector (contd...)

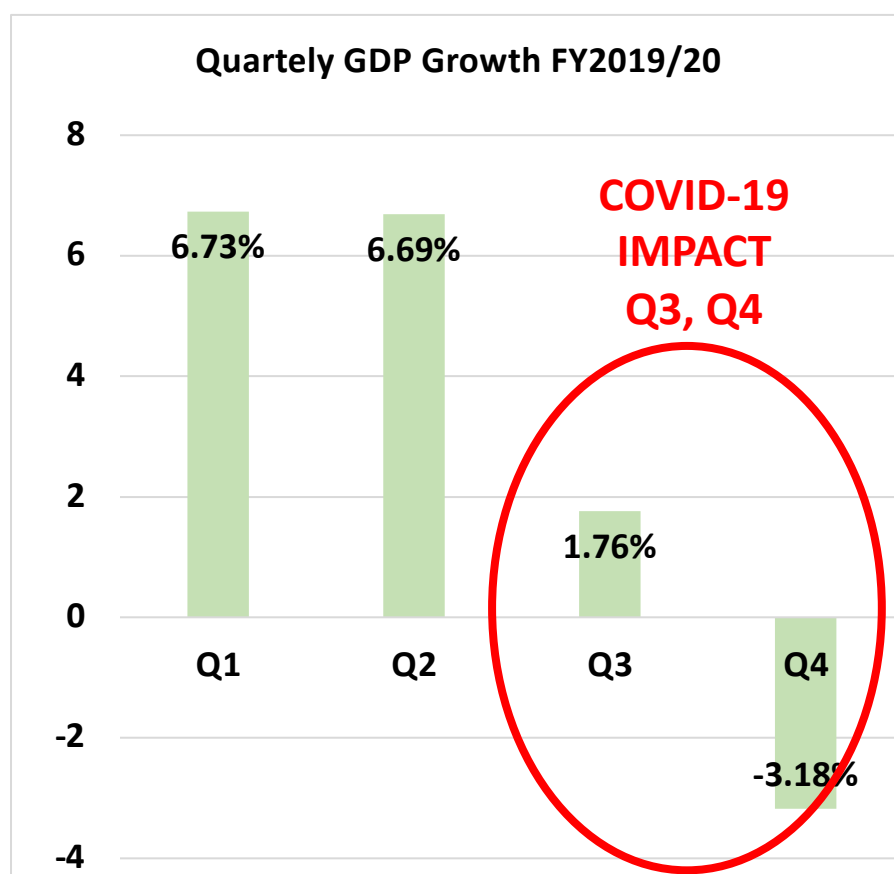
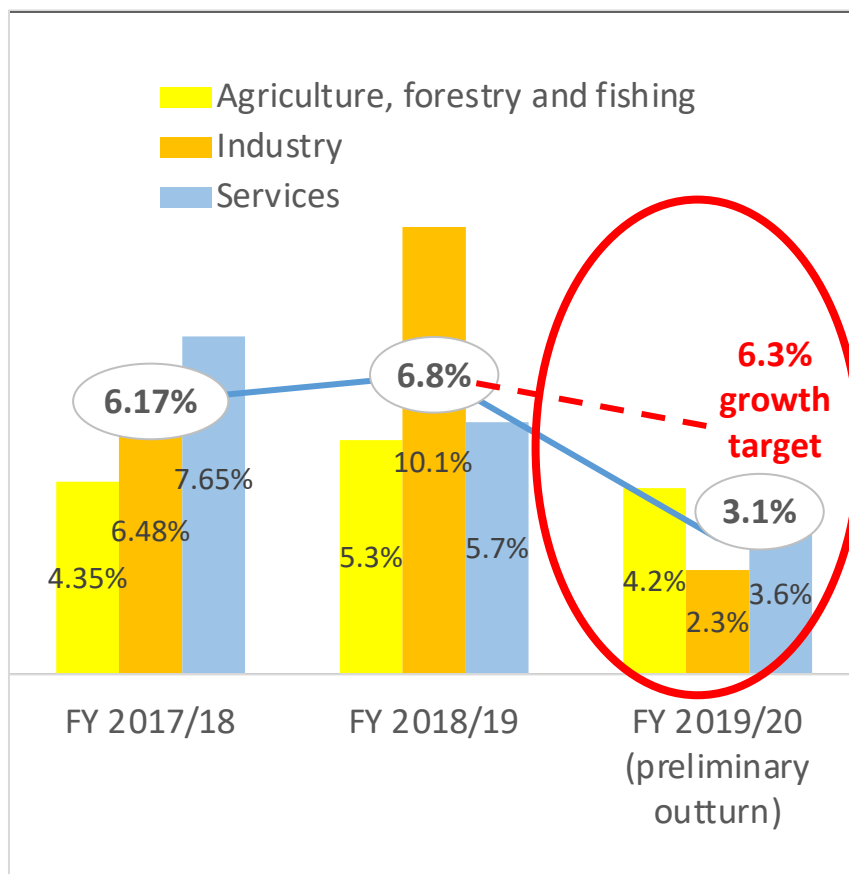
- i. In terms of interest rates, lending rates have not changed significantly despite the monetary easing stance by the Bank of Uganda.

	Feb-20	Mar-20	Apr-20	May-20	Jun-20
CBR	9	9	8	8	7
Lending Rates (Shs)	19.12	17.78	17.73	18.84	19.30

- ii. Slow down in economic activity and income in different sectors affected the servicing of loans by borrowers , resulting into :
- an increase in the ratio of Non-Performing Loans (NPLs) to total lending to 5.7 percent in June 2020 compared to 3.8% in June 2019.
  - Commercial banks becoming more risk averse and increasing lending rates
  - Decline in the rate of growth in Private Sector Credit (PSC) to 9 percent in 2019/20 compared to 13.4 percent in 2018/19.



## Overall Economic Growth far below target, but remained positive.





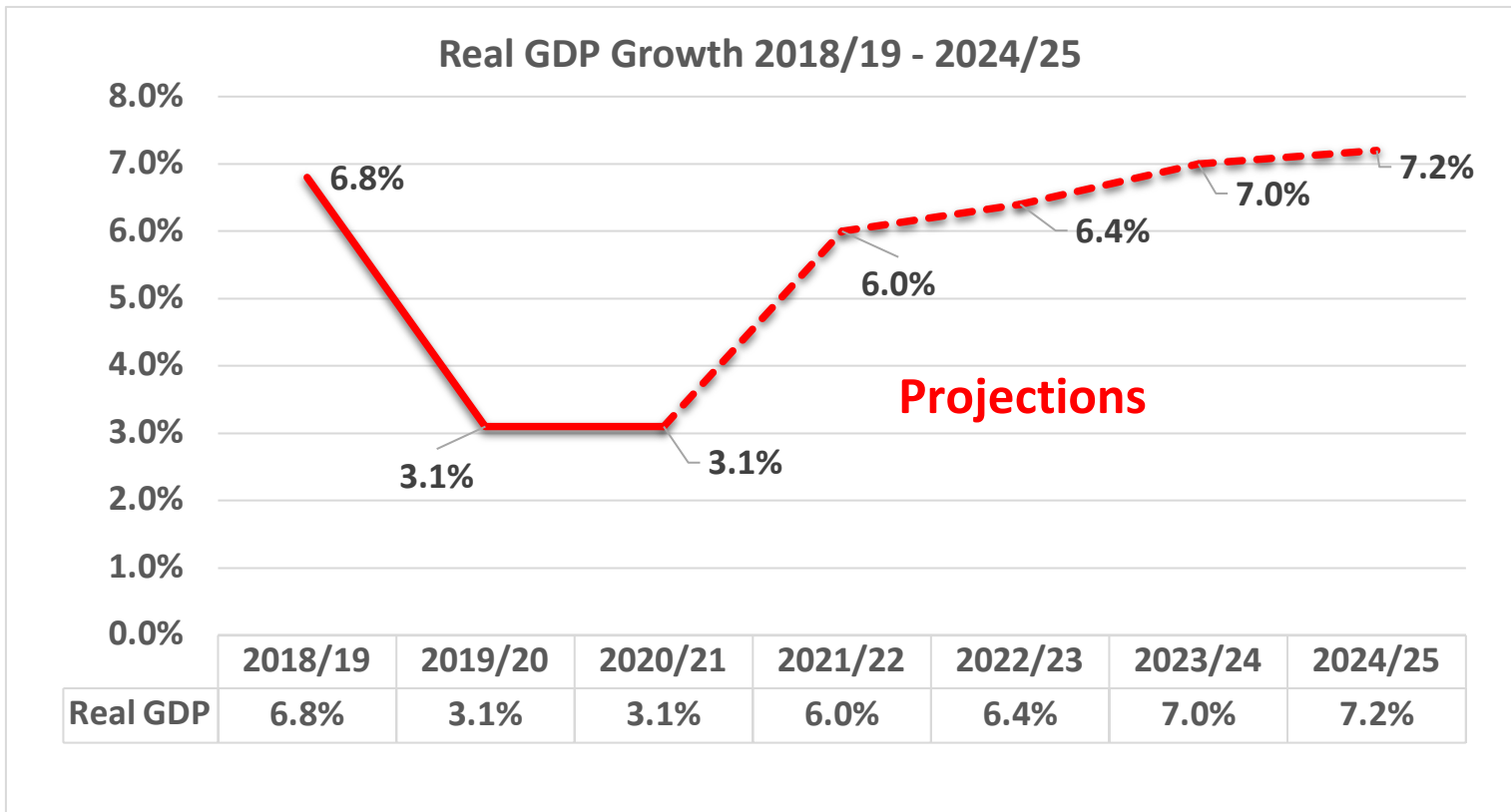
## Near-Term Outlook and Prospects for Recovery in FY 2020/21.

- i. Signs of recovery but full recovery to potential growth projected to be gradual because of :
  - Low aggregate demand which continues to be affected by income losses arising from (decline in exports, tourism receipts etc., and job losses).
  - In a bid to reduce costs, some firms are continuing to shed labour despite on-going recovery in economic activity. This raises a risk of jobless growth/recovery
  - Foreign and domestic demand expected to recover slowly, particularly in the first half of FY 2020/21 (July – Dec 2020).
  - Size of the economic stimulus package not as big as those in more developed countries due to limited fiscal space.
- ii. Hence Uganda's economy is projected to grow at a slower rate of 3.1% in FY 2020/21 compared to the previous projection of 6%. Then recovering to grow at 6-7% in the medium term.



# Near-Term Outlook and Prospects for Recovery (contd..)

**Gradual Recovery: Hence U-Shaped Recovery rather than V-Shaped**







## Key Assumptions or Risks to the Economic Outlook

- i. That the Covid-19 outbreak is contained (i.e. less intense and not widespread) in the first half of the FY 2020/21 and hence no need for another complete lockdown.
- ii. Quicker global growth recovery, recovery in external(trading partners including countries in the EAC region) and domestic aggregate demand
- iii. Restoration of financial flows in the short term (portfolio flows) and the medium term (FDI, remittances) to original levels
- iv. Government's monetary and fiscal stimulus policy packages are effectively implemented by both the public and private sectors while avoiding falling into debt distress.
- v. Other shocks not severe - Locust invasion, drought



## Some Macroeconomic level Policy and Budget Priorities

- i. First, Provision of adequate resources for essential health expenditure to contain the spread of the virus
- ii. Fiscal and monetary policies to support both the supply and demand sides of the economy given the nature of impact of the Covid-19 pandemic – for economic resilience and growth recovery.
- iii. On the supply side, measures to limit economic losses, alleviate liquidity constraints of firms to ensure survival for most affected sectors
- iv. On the demand side, measures to boost aggregate demand (provisions for the vulnerable, protection of jobs/wages, payment of domestic arrears, etc).
- v. To return to potential growth, provision of support to sector(s) with high fiscal multipliers and those most affected by the pandemic
  - sector(s) with large positive spillovers to the rest of the economy particularly Agro-industry/agro-processing (hence agriculture).
  - Most affected sectors, e.g. tourism, manufacturing, education



## Some Macroeconomic level Policy and Budget Priorities (contd..)

- vi. In terms of medium term growth prospects – oil sector is critical. Hence focus on facilitating the taking of the Final Investment Decision (FID) so that investments are not delayed any further.
- vii. Mobilizing additional concessional financing from international financial institutions (IFIs) and other development partners. (explore debt relief opportunities)
- viii. Re-prioritisation of sector budgets to ensure as much alignment as possible to the National Development Plan III
- ix. Strict accountability for stimulus interventions will be required to ensure value for money and having maximum impact
- x. In the medium term (after the crisis), reverse the expansion in the fiscal deficit and public debt to ensure fiscal and debt sustainability. (stabilization of public debt is critical for investor confidence and hence for growth)
- xi. Other important structural reforms include:
  - continuing to improve public investment management
  - reforms to facilitate provision of long-term finance for enterprise competitiveness.



THANK YOU

