Uganda Economic Update

DEG meeting

1 February 2022

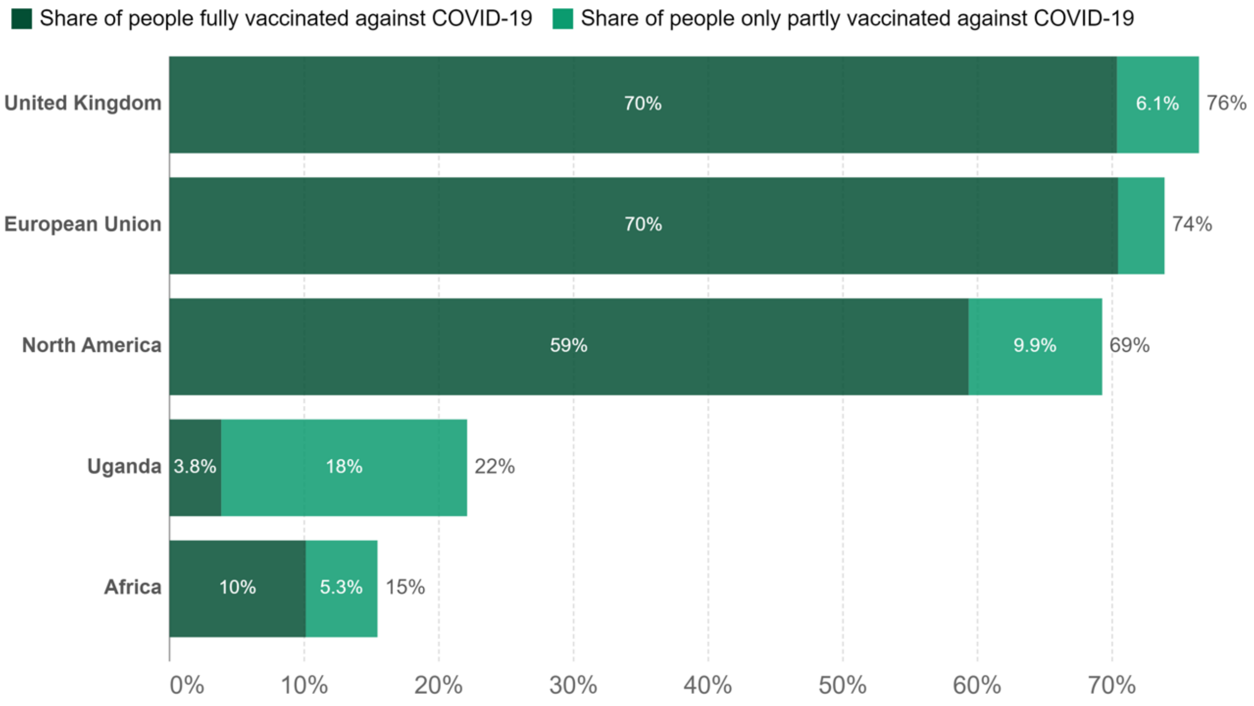
THE WORLD BANK

Key Messages

1. A two-track global economic recovery is underway
2. Uganda's economy was recovering before the second COVID-19 wave, and seems to be picking up again
3. Poverty and vulnerability have increased, and threats to human capital loom large
4. Government's fiscal space has narrowed
5. Portfolio inflows are a source of external vulnerability
6. An uncertain stop-start economic recovery is expected

A two-track global economic recovery is underway

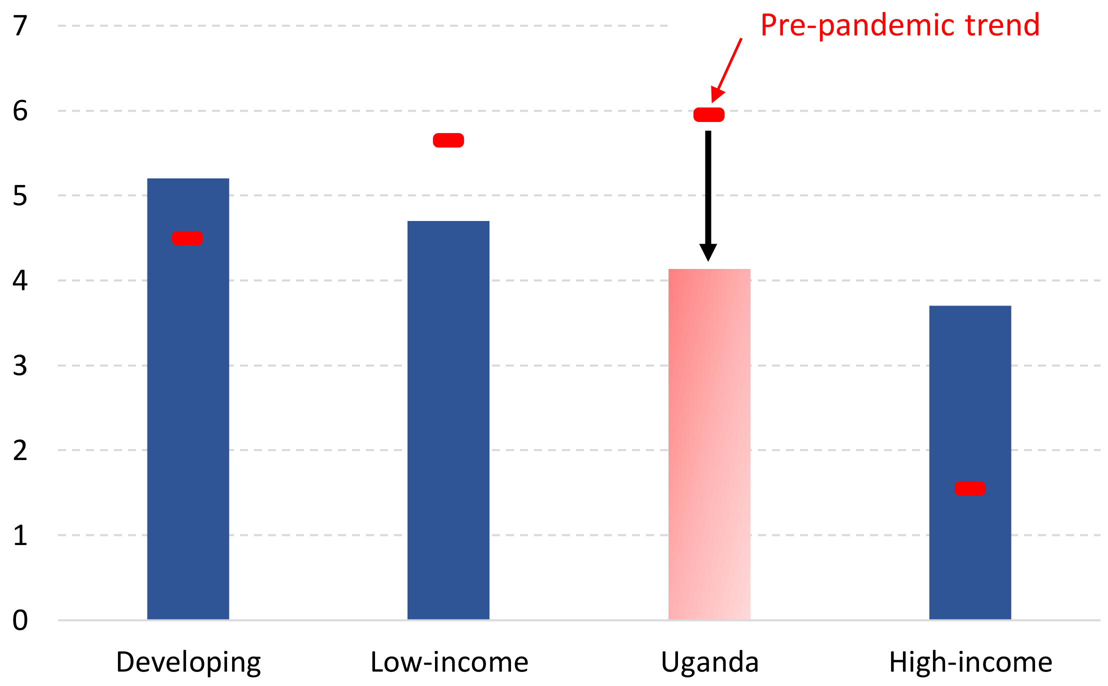
Divergence in vaccine coverage
(18 January 2022)



Source: Our World in Data

Lower vaccine coverage has led to more stringent lockdowns in low-income countries. Limited capacity to provide fiscal and monetary support in these countries has also constrained the recovery

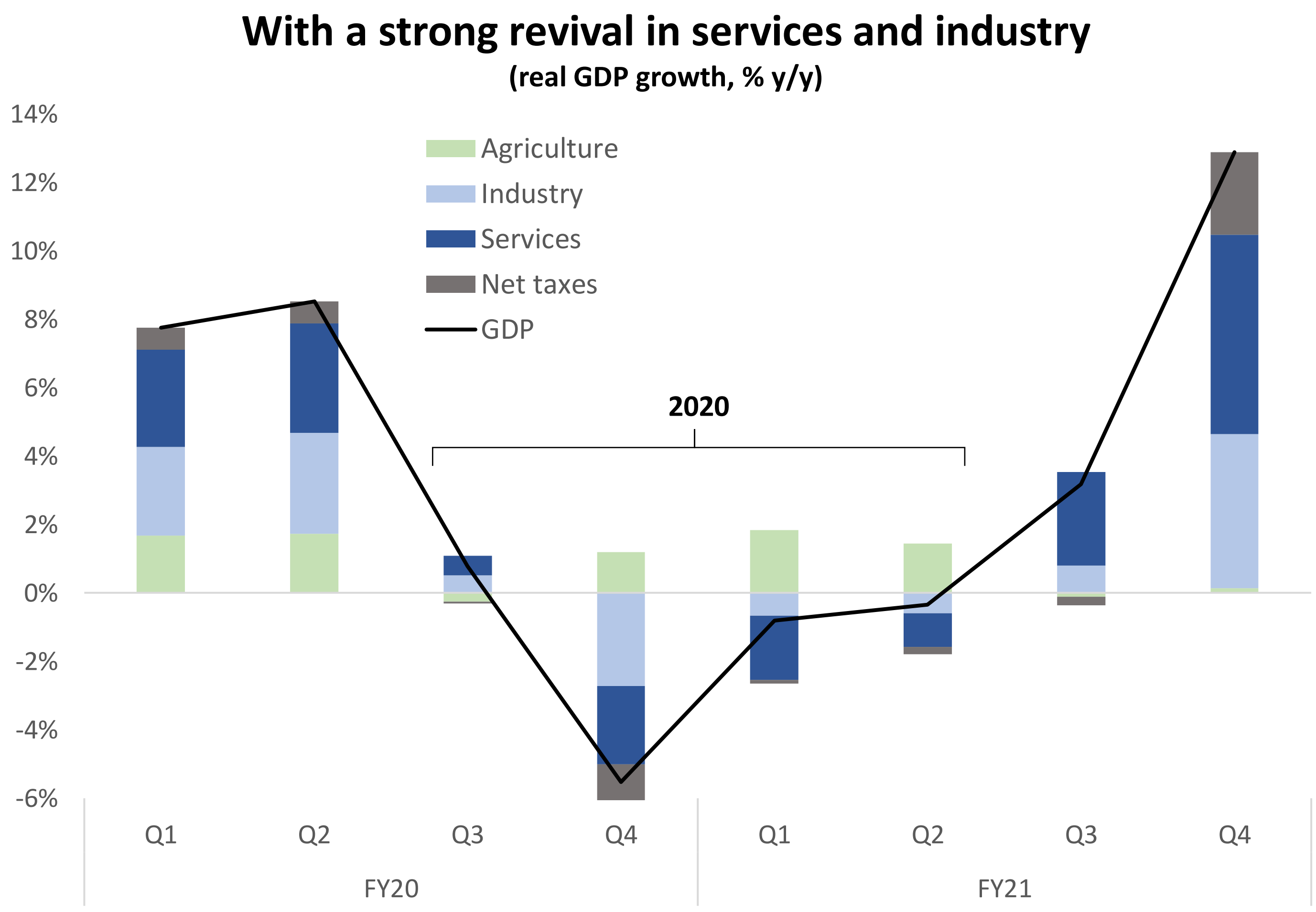
LIC growth to remain below pre-pandemic trends
(expected average real GDP growth from 2021 to 2023, %)



Source: GEP, January 2020 and 2022

Even more concerning given higher population growth in low-income countries

Uganda's economy was recovering…



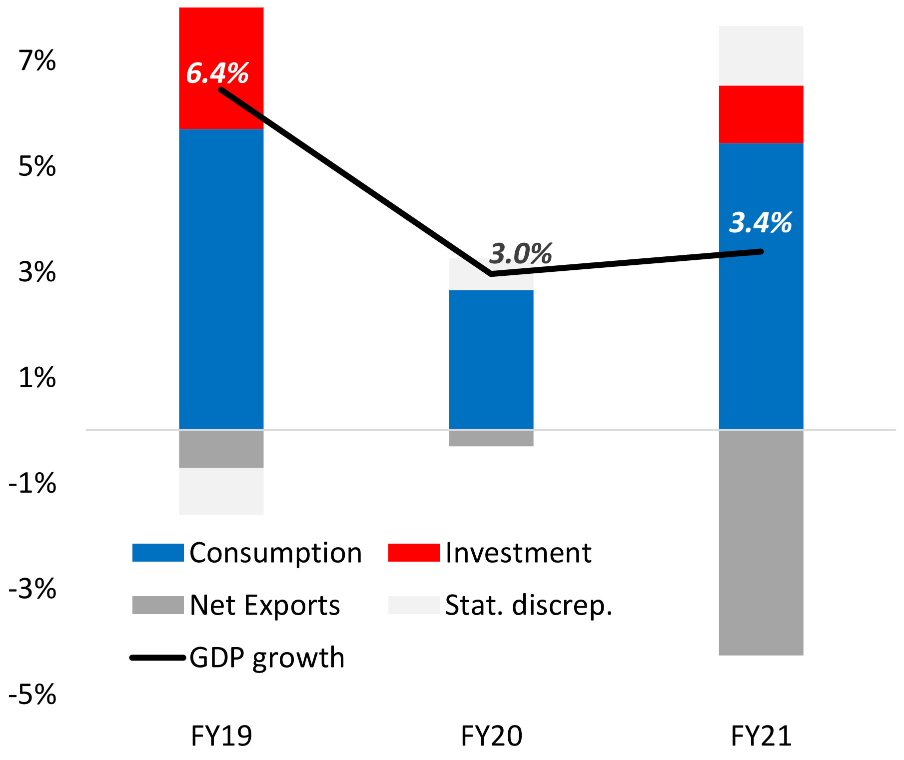
Source: UBOS

- Services growth was driven by retail trade and ICT, with a welcome recovery in the accommodation and food sectors
- Industry was led by a recovery in manufacturing (2.5% y/y Q4 growth following an average contraction of 0.6% over the previous five quarters)
- However, concerning slowdown in agriculture given shift of labour into this sector as a safety net against the crisis

...with some positive signs...

Driven by growth in consumption and investment

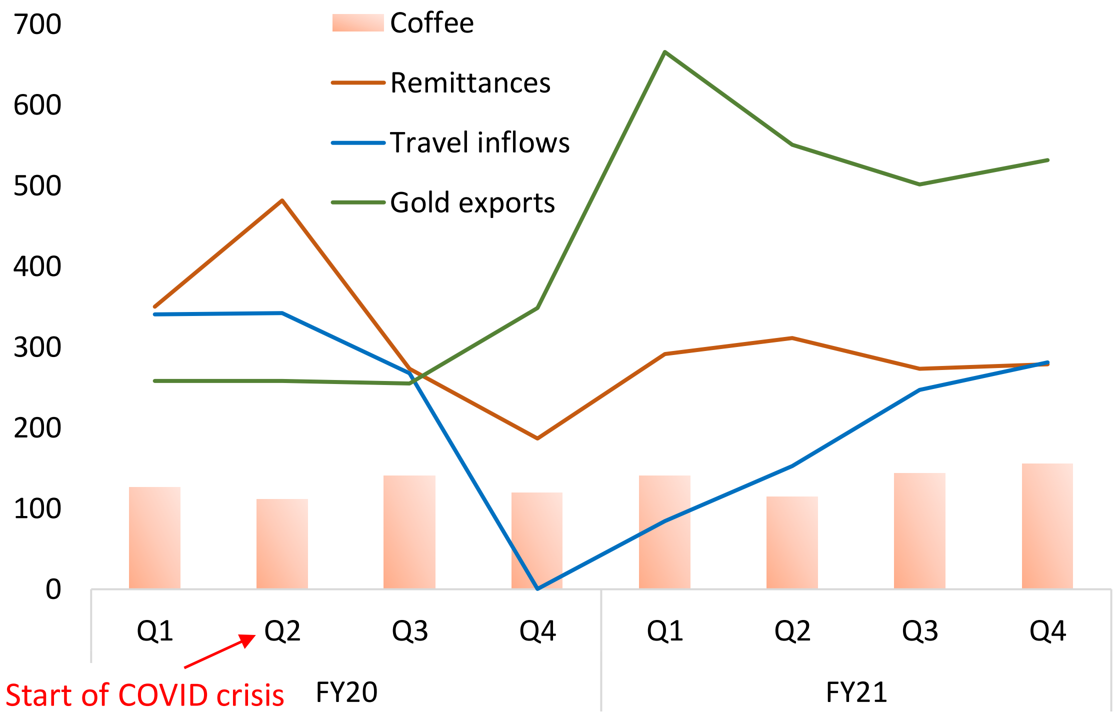
(real GDP growth, % y/y)



Source: UBOS

And a recovery in certain external inflows

(US$ millions)



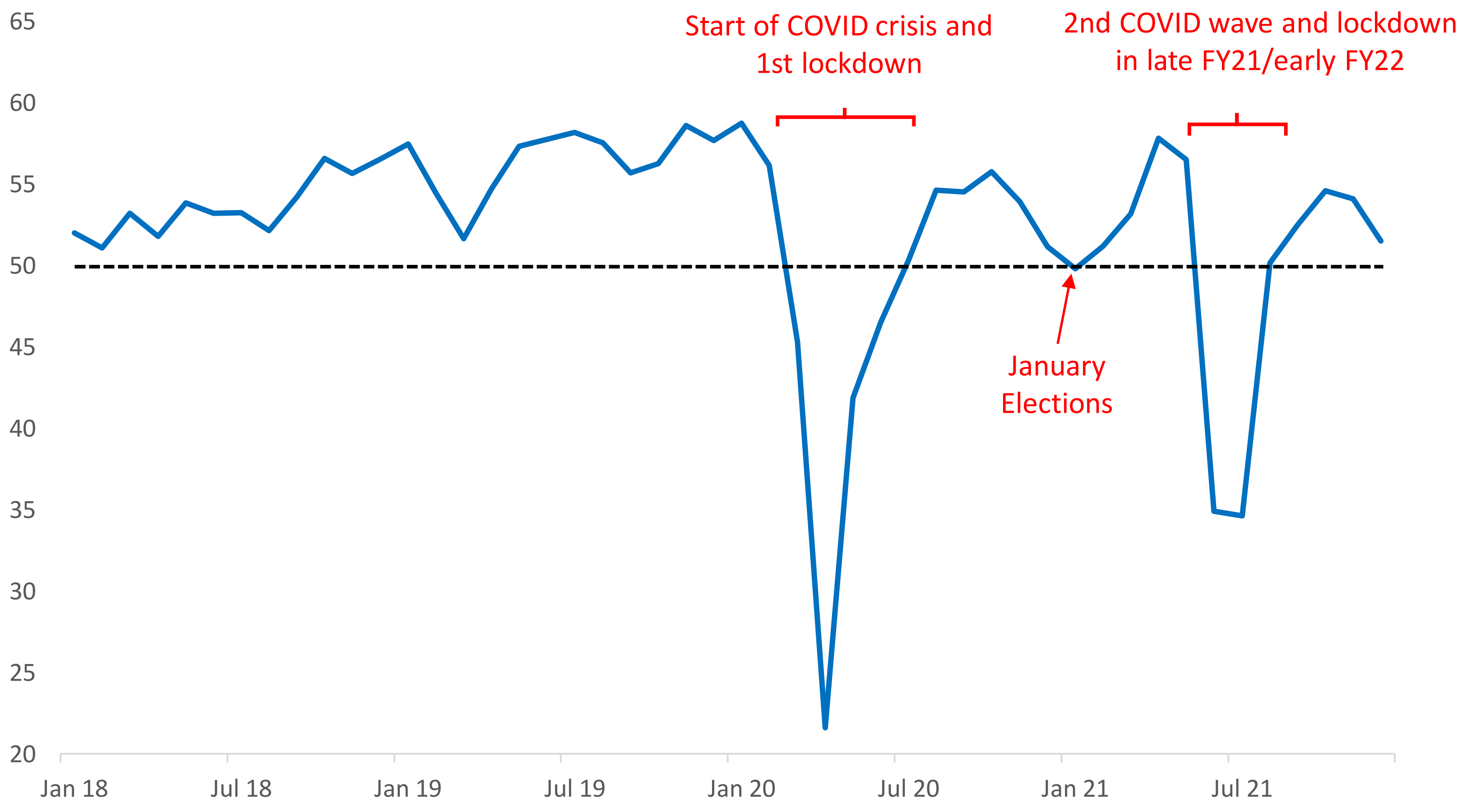
Source: BOU

- Domestic demand conditions improved, and private consumption grew by over 7% in FY21
- Investment recovered with public investment growing at over 30%, compared to only 4% in FY20

...but, then there was the second COVID-19 wave...

Business conditions deteriorated significantly during the two lockdowns

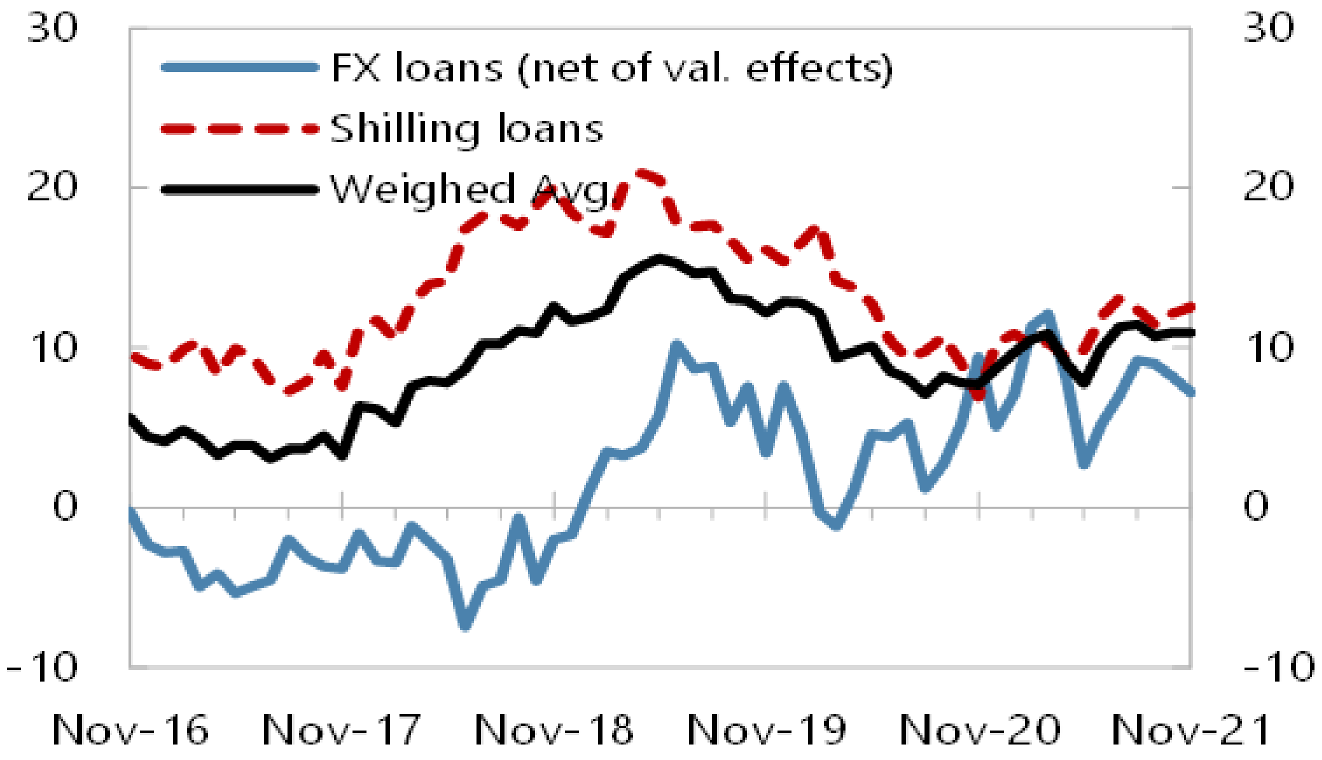
(Purchasing Managers Index, >50 = improvement since previous month)



Source: Stanbic Bank

…whilst private sector credit growth remains sluggish…

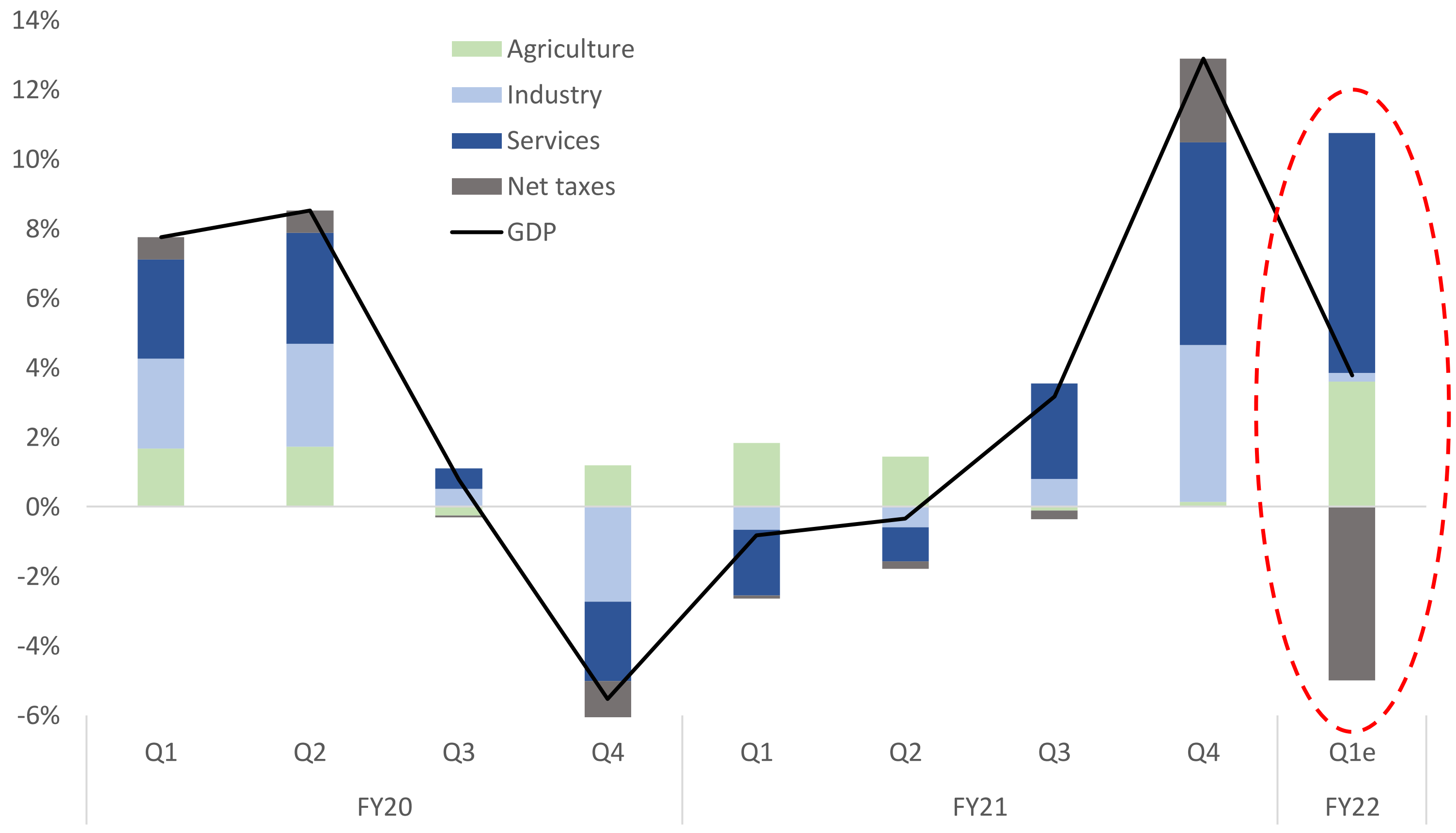
Private sector lending recovering slowly
(% y/y growth)



Source: BoU and IMF

...and so, the recovery tapered off in early 2022

Driven by a sharp slowdown in industry*
(real GDP growth, % y/y)



Source: Stanbic Bank

*FY22 Q1 is an estimate and figures will be revised – thus, estimated net taxes are unusually large to ensure value-added numbers are in line with overall GDP growth statistics

- Growth fell from 12.9% in Q4 FY21 to 3.8% in Q1 FY22
- Industry was particularly hard hit by second lockdown – manufacturing contracted by 8.5% in Q1 FY22
- Services growth remained strong, and agriculture staged a recovery
- **High frequency indicators (e.g. PMI) suggest better momentum into Q2 FY22, but Omicron has clouded near-term outlook**

Thus, expected FY22 growth revised down

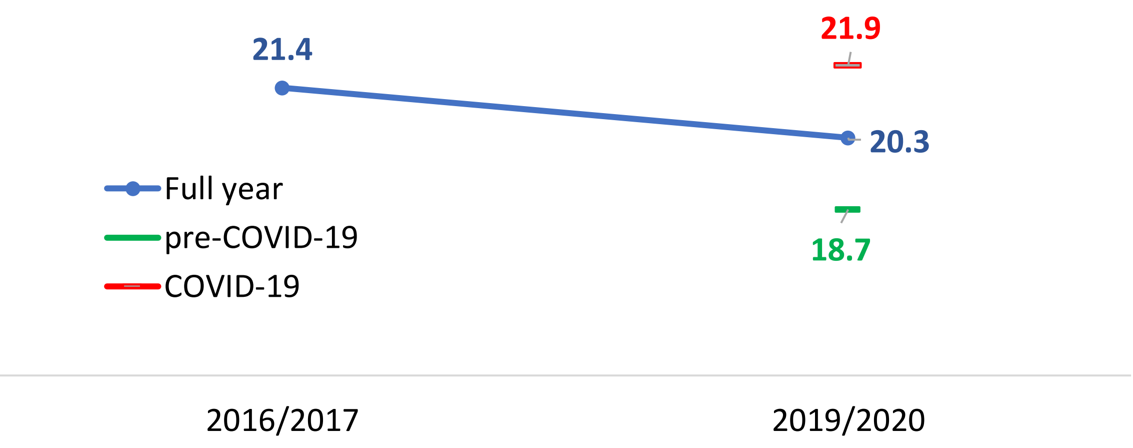
4.3%

3.8%

Poverty and vulnerability have increased…

Poverty increased after the first COVID wave

(headcount national poverty, % of population)

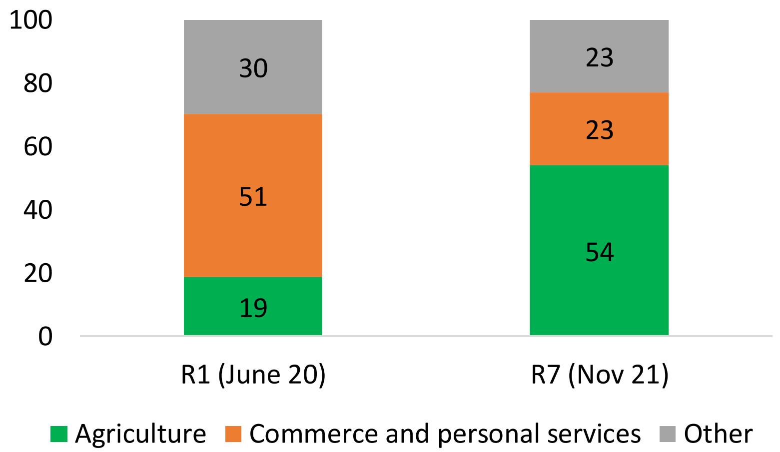


Source: UNHS 2016/17 and 2019/20

- More people shifted to agriculture (even before second COVID wave); yet productivity remains low, and continued capacity to be a safety net is uncertain
- Before second COVID wave, incomes for a large share of households (up to 46% for non-farm family businesses) were still lower than pre-COVID; with female-owned MSMEs being hit particularly hard

Recent work stoppages were highest in agriculture

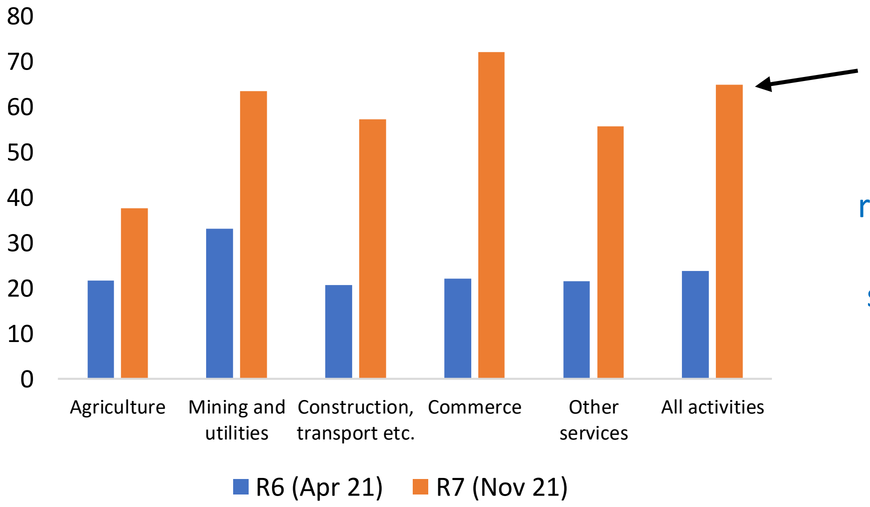
(%, compared to previous UHFPS round)



Severe/moderate food insecurity increased sharply in Nov 2021 (higher than in June 2020) with almost half of household members being moderately insecure

Family business revenues fell across all sectors

(% of h'holds with businesses reporting less, compared to previous UHFPS round)



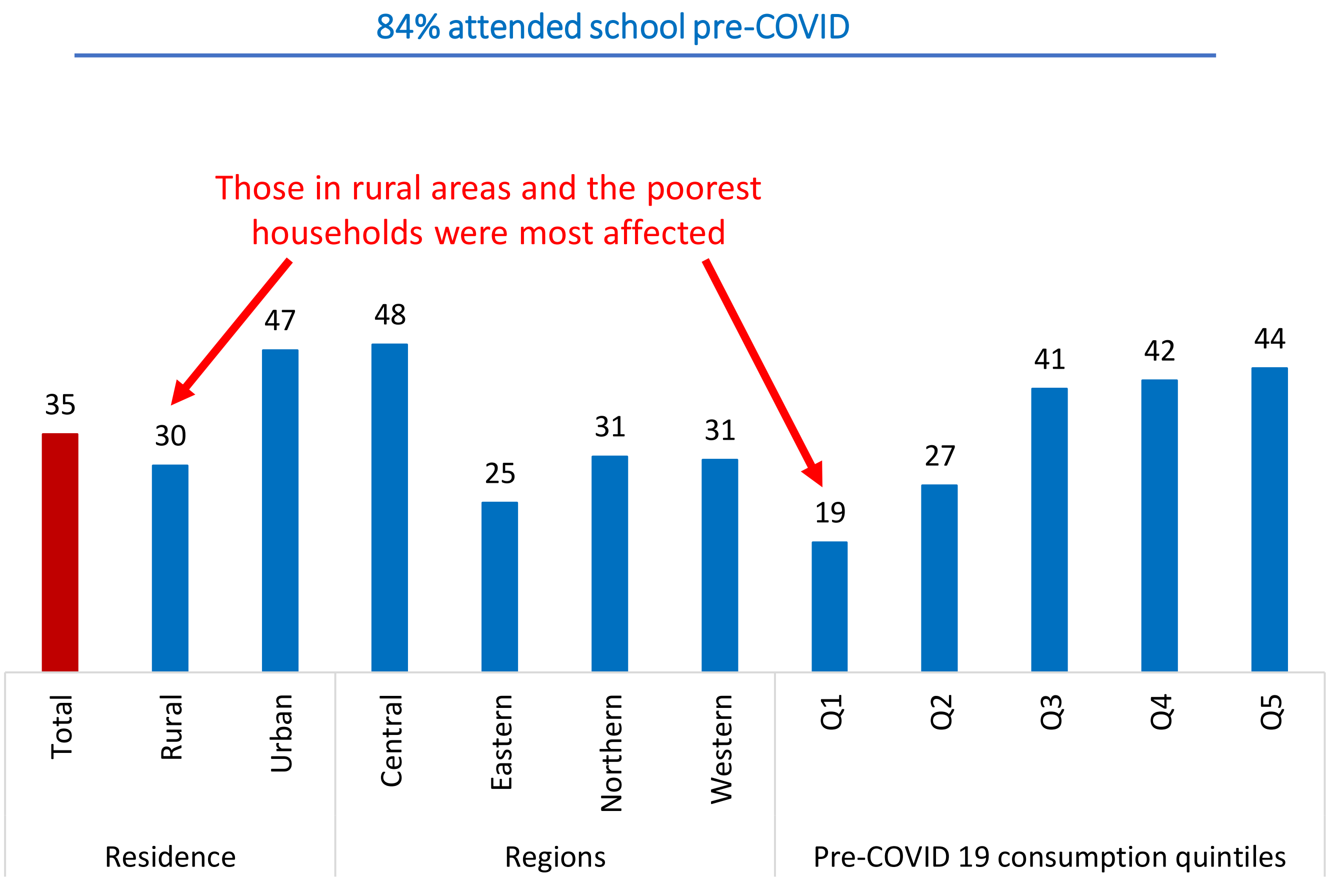
65% of households with family businesses saw revenues fall from all activities after second COVID wave

Source: UHFPS (R7 results preliminary, not for citation/distribution. UBOS/World Bank will publish detailed results soon)

…and deep and persistent threats to human capital loom large

Most children were not engaged in any learning activity by the latter part of 2021

(% of children engaged in any learning activity, ages 3-18)



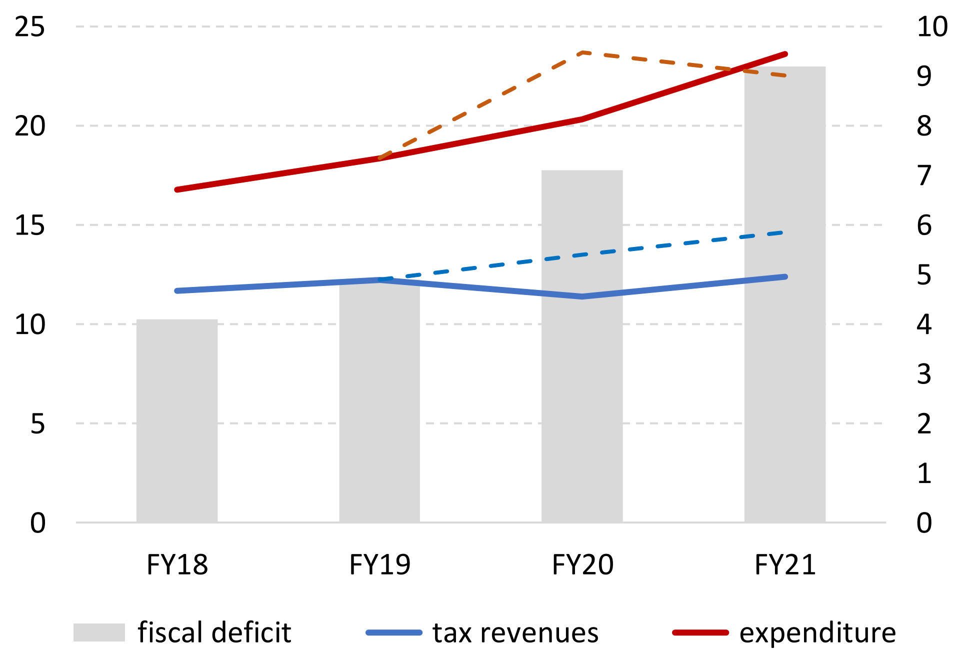
Significant implications for future productivity and economic growth

Source: UHFPS November 2021

Yet, government's fiscal space has narrowed…

Rise in fiscal deficit as revenues/expenditures diverge*

(% of GDP, fiscal deficit RHS axis)

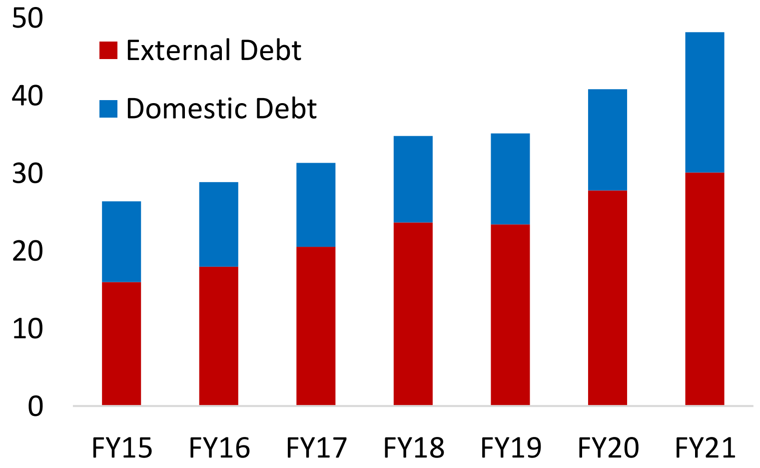


Source: MOFPED and World Bank calculations

*Dashed lines show pre-COVID projected tax revenues and expenditures from the FY20 medium term fiscal framework

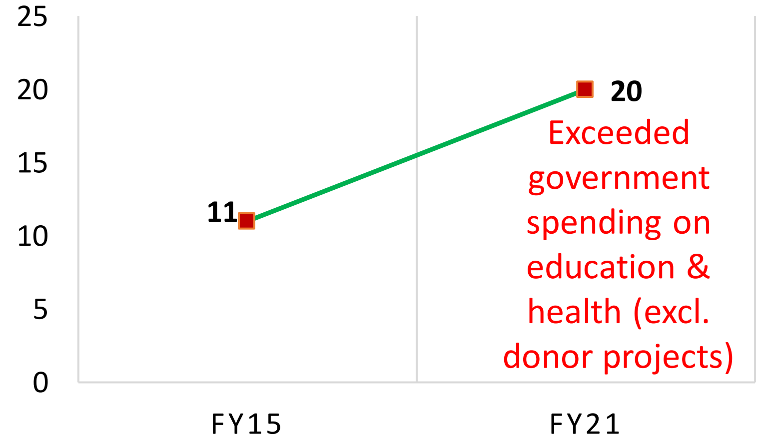
Surge in public debt

(% of GDP, nominal)



Heightened liquidity pressures

(interest/revenue ratio, %)



Source: BOU, IMF-WB DSA, June 2021 and World Bank calculations

Driven by higher non-concessional and domestic borrowing (higher implicit interest rates) due to lower revenues (incl. from lower economic growth)

Thus, better borrowing decisions will need to be made – including greater use of concessional debt and better matching of projects to appropriate financing

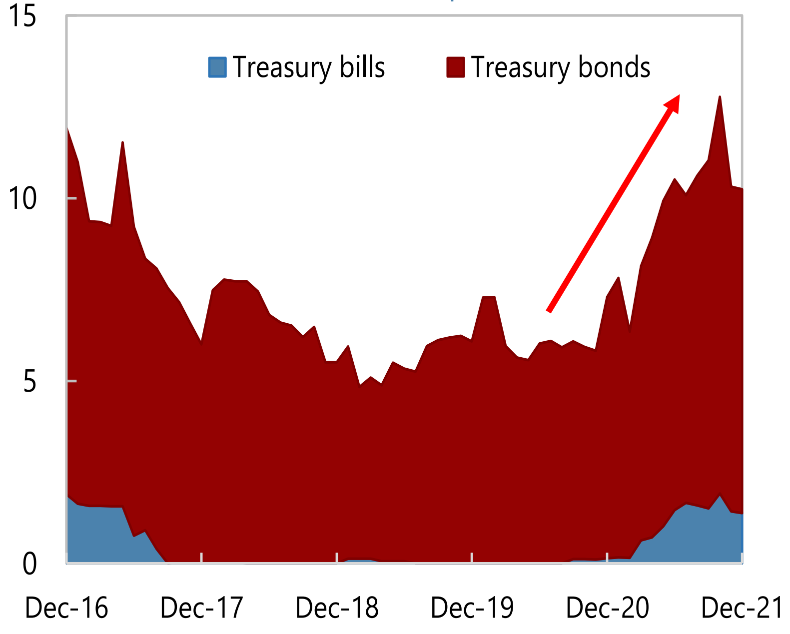
…but if well implemented, there are policies to turn this around

So that resources are sourced, collected, allocated and spent effectively, and key priorities and programs delivered successfully

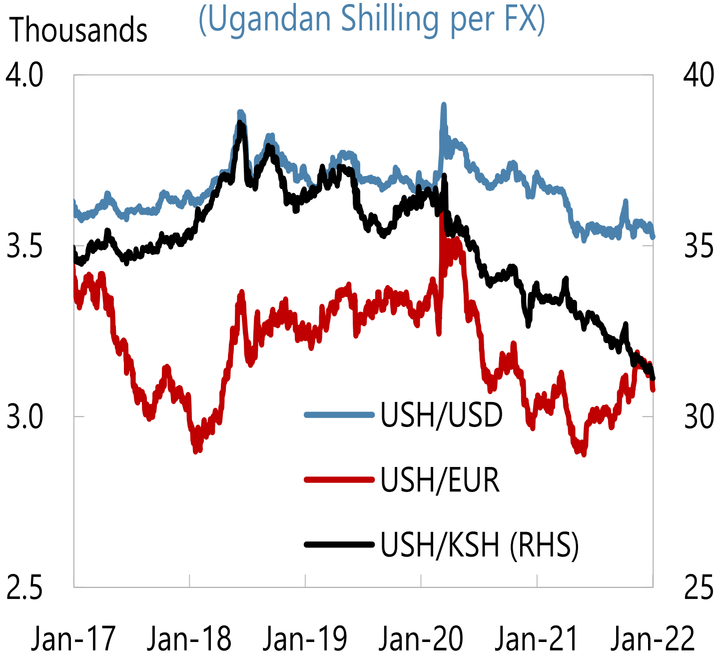
Portfolio inflows are a source of external vulnerability

Supported by higher yield differentials, (net) portfolio inflows contributed to the appreciation of the Shilling, helped finance the large current account deficit, and are a source of vulnerability

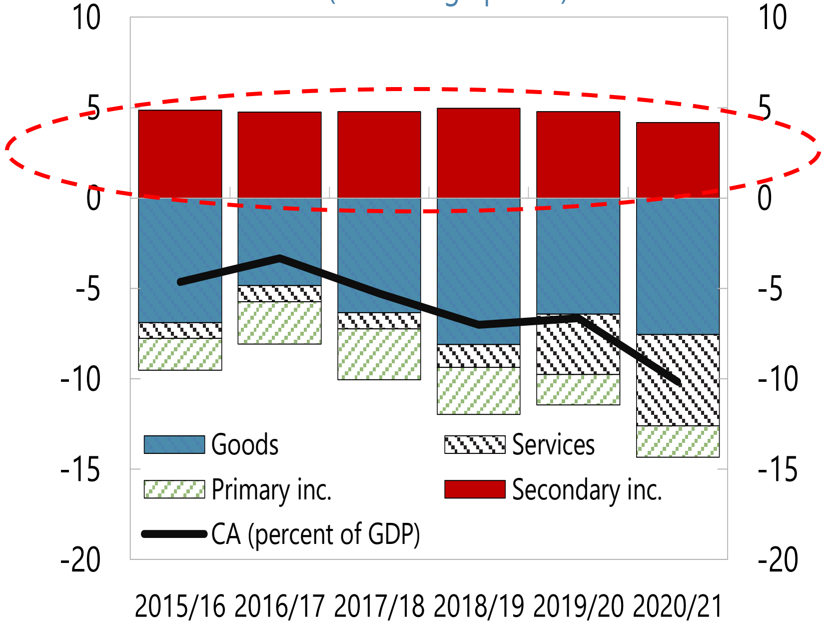
Government Securities Held by Offshore Investors
(Share of total, percent)



Nominal Exchange Rate
(Ugandan Shilling per FX)



Contributions to Current Account
(Percentage points)

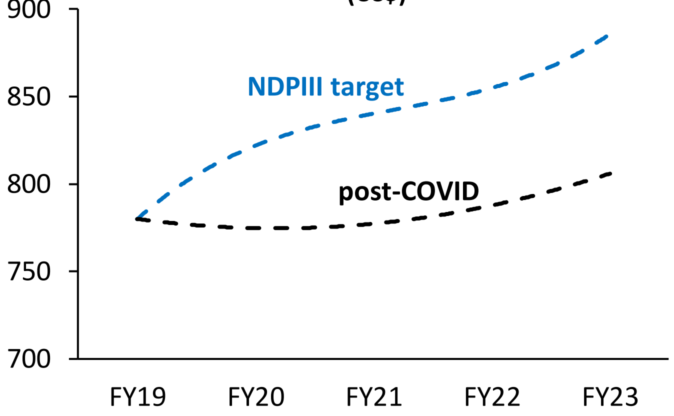


An uncertain stop-start economic recovery is expected

	FY21	FY22f	FY23f
Real GDP growth (%)	3.4	3.5-4	5-6
Net FDI (% GDP)	2.1	2.4	3.1
Inflation (CPI)	2.5	3.5	4.5
Current account (% GDP)	-10.2%	-8.4%	-8.3%
Forex reserves (months of imports)	4.1	4.3	3.4
Fiscal deficit (% GDP)	9.2	6.4	4.0
Public debt (% GDP)	48.2	52.4	52.3

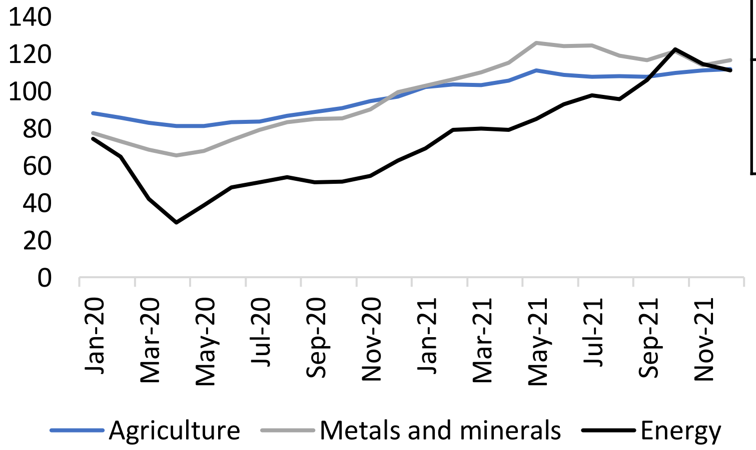
Source: UBOS, BoU, IMF and World Bank calculations

Real GDP per capita below target
(US$)

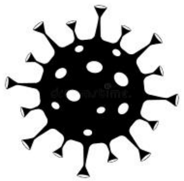


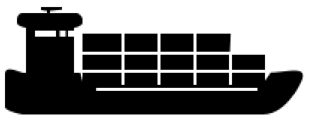
Source: World Bank calculations

Commodity prices have recovered well
(monthly indices)



Source: World Bank





Proposals for GoU and LDPG follow up

1. **Strengthen vaccination programme**
   - GoU to make every effort to achieve widespread coverage by end-2022
   - Resources and vaccines are available, need to roll them out more effectively and efficiently

2. **Keep schools open and put in place a learning remediation process**
   - Need to educate children and build human capital (for future productivity, growth and development)
   - Includes safeguards to minimize disease transmission, and a strategy/protocols for continuous assessment and identification of areas/schools where cases are spiking to enable appropriate measures for isolation and temporary closures

3. **Maintain prudent and transparent fiscal and debt management**
   - Stay on track with IMF programme; critical to ensuring macro stability (substance) and flagging to donors/creditors that GoU is serious about macro-adjustment and reducing debt (spin)
   - Raise revenues (strong implementation of DRMS, including new *Tax Expenditure Framework*)
   - Using public resources more efficiently to maximize returns on investments (better budgeting, and selection and execution of projects) – *Is GoU really going ahead with army implementation/construction of all public investment projects? Capacity? Impact on PIP? Environment & Social impacts?*
   - Implement Performance and Policy Actions (PPAs)

4. **Continued and scaled-up support to the vulnerable, farmers and MSMEs**
   - COVID crisis has exposed gap in effective economic inclusion programmes (e.g. SP) that can protect against shocks
   - Agriculture: host of issues from production through logistics and onto marketing!
   - MSMEs: need affordable finance to recapitalize businesses – e.g. being aware of and having access to GoU's relief measures; digitalization offers opportunities to reach customers, deliver goods/services efficiently, transact remotely and ensure better resilience; access to affordable electricity, ICT products/services, and technical skills and capacity