HOW WELL DID UGANDA RESPOND TO THE RECENT GLOBAL AND DOMESTIC ECONOMIC SHOCKS?

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SCOPE

1. Recent global economic shocks and their impacts
2. GOU response to the shocks
3. Lessons from Uganda’s response to the recent shocks
4. Key actions to build resilience into Uganda’s growth strategy

Introduction

The Uganda economy has faced global (external)economic shocks:-

Covid-19 pandemic

- Disrupted supply networks
- Up opportunities for import replacement
- Low demand for exports
- FDI and Remittances have been negatively affected

Increase in commodity prices

- **Imported inflation (fuel, raw materials, etc)**

Increase in interest rates

- Increased cost of borrowing
- Reduced access to global capital (reversal of capital flow to DCs)

Increase in debt

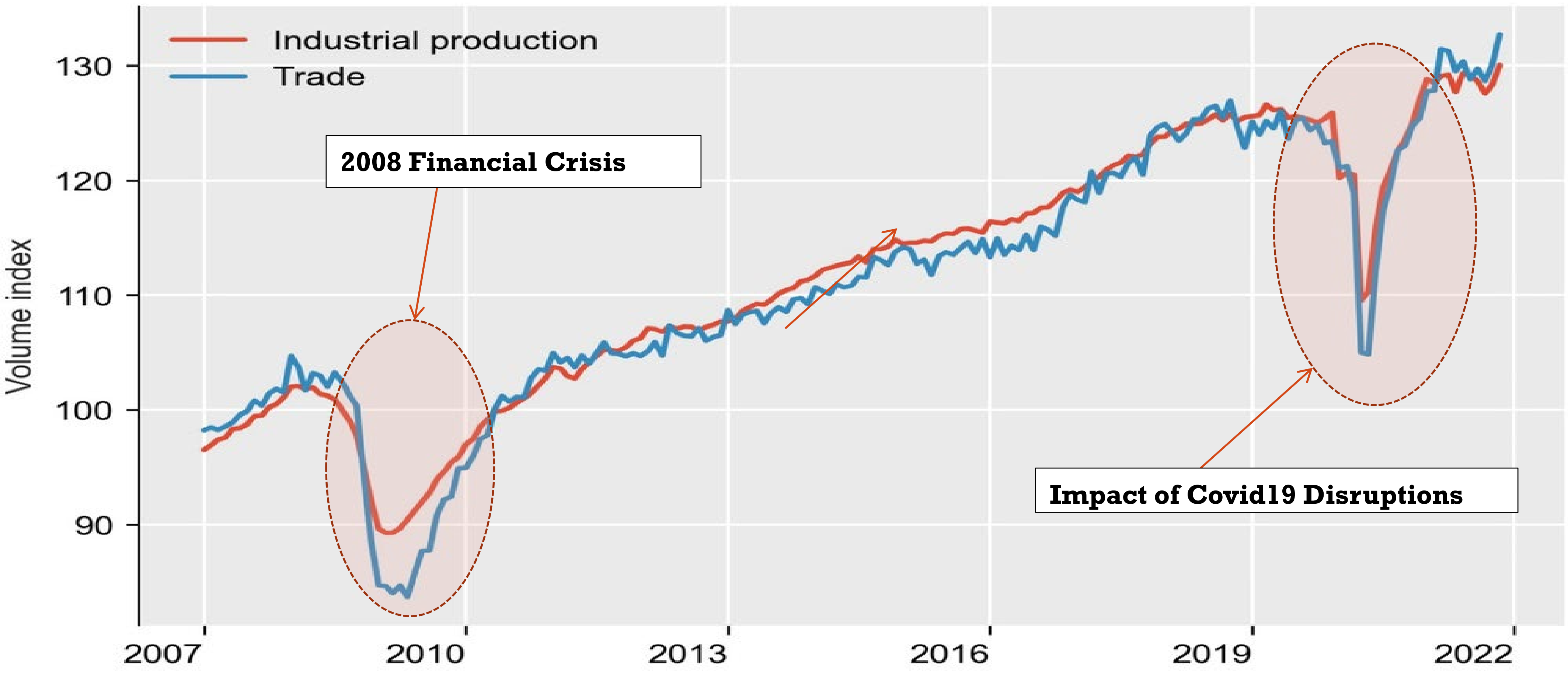
- Reduced fiscal space and fiscal flexibility

Climate Change Effects

- Resulted in a gradual withdrawal of financing to non-renewable energy projects.
- Scaling up access to Climate Finance, and building the required capacity.

The volume of world trade and industrial production

Seasonally adjusted (2010=100)



Source: OECD 2022

RECENT GLOBAL ECONOMIC SHOCKS AND THEIR IMPACTS

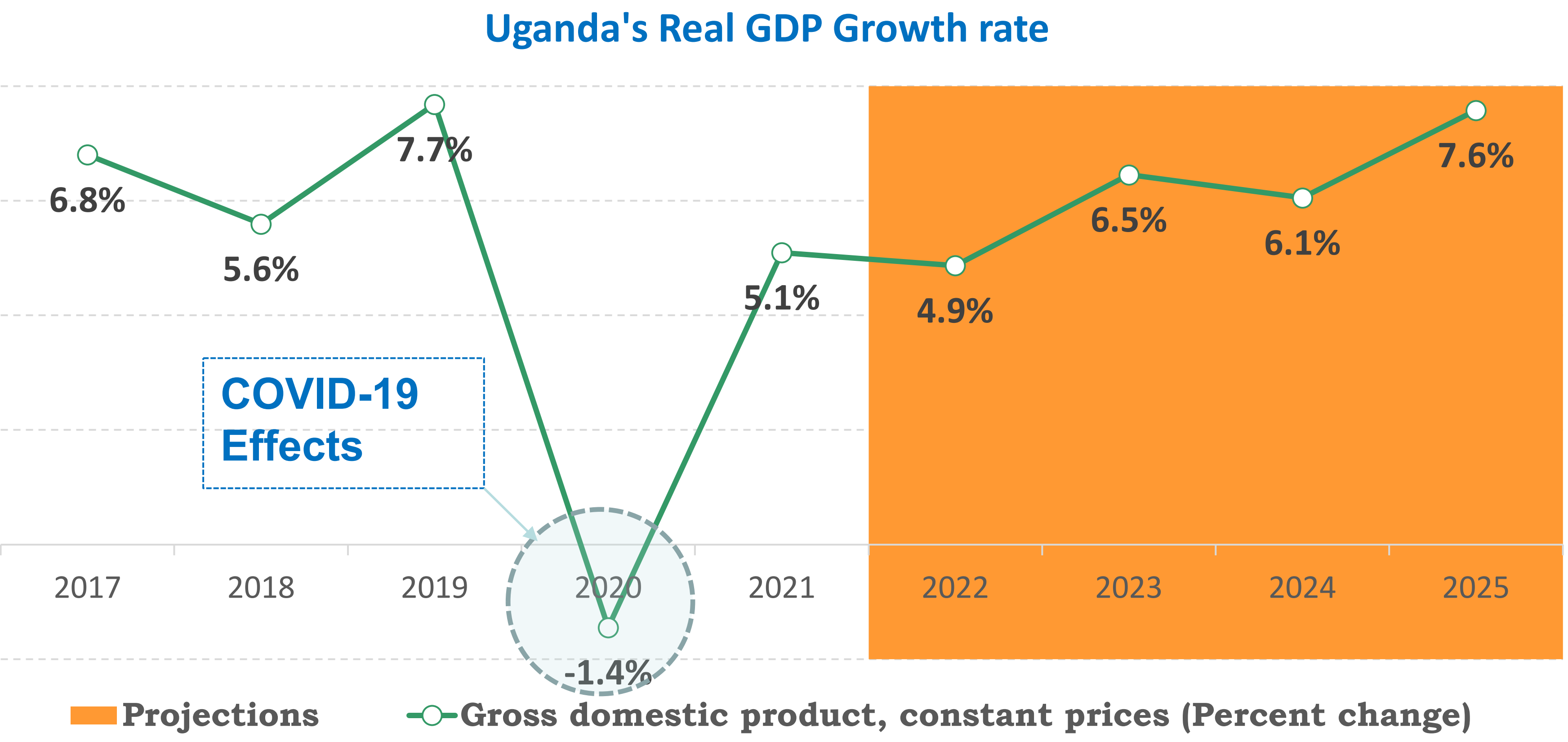
1. Covid19 pandemic
    a) Disrupted supply networks leading to shortages and a significant rise in transport costs
    b) C-19 opened up opportunities for import replacement
    c) Low demand for exports
    d) FDI and Remittances have been negatively affected
2. Increase in commodity prices such as Oil, Gas and food;
    a) Imported inflation (fuel, raw materials, etc)
3. Increase in interest rates for major financial products;
    a) Increased cost of borrowing
    b) Reduced access to global capital (reversal of capital flow to DCs)

4. Increase in debt in most countries, particularly impacting heavily on Emerging Market and Low Income Economies
    a) Reduced fiscal space and fiscal flexibility
5. Climate Change Effects
    a) Resulted in a gradual withdrawal of financing to non-renewable energy projects.
    b) Scaling up access to Climate Finance, and building the required capacity.

THE RECENT DOMESTIC ECONOMIC SHOCKS

1. Covid19 Pandemic

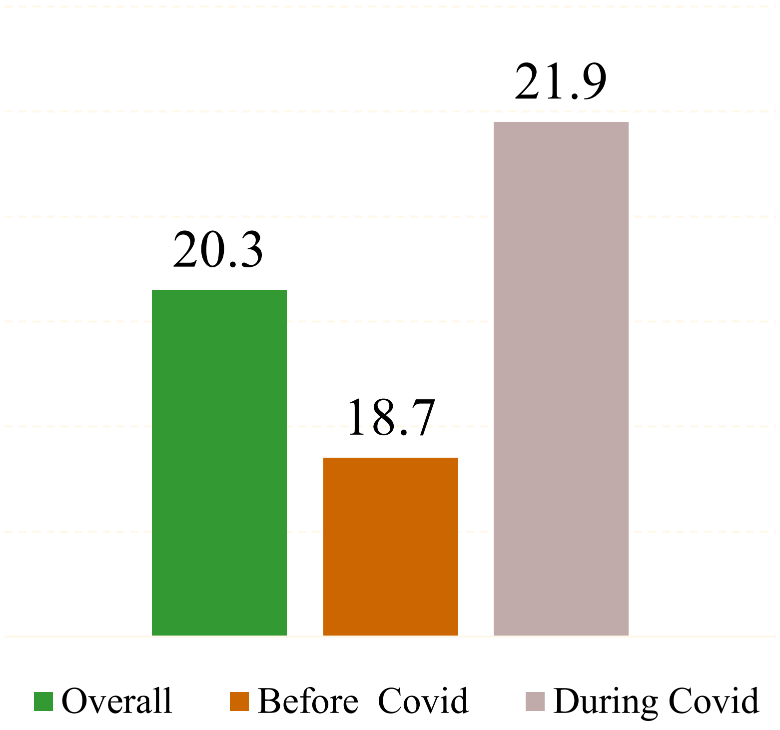
a. Affected economic activity due to the Lockdowns, leading to loss of incomes.



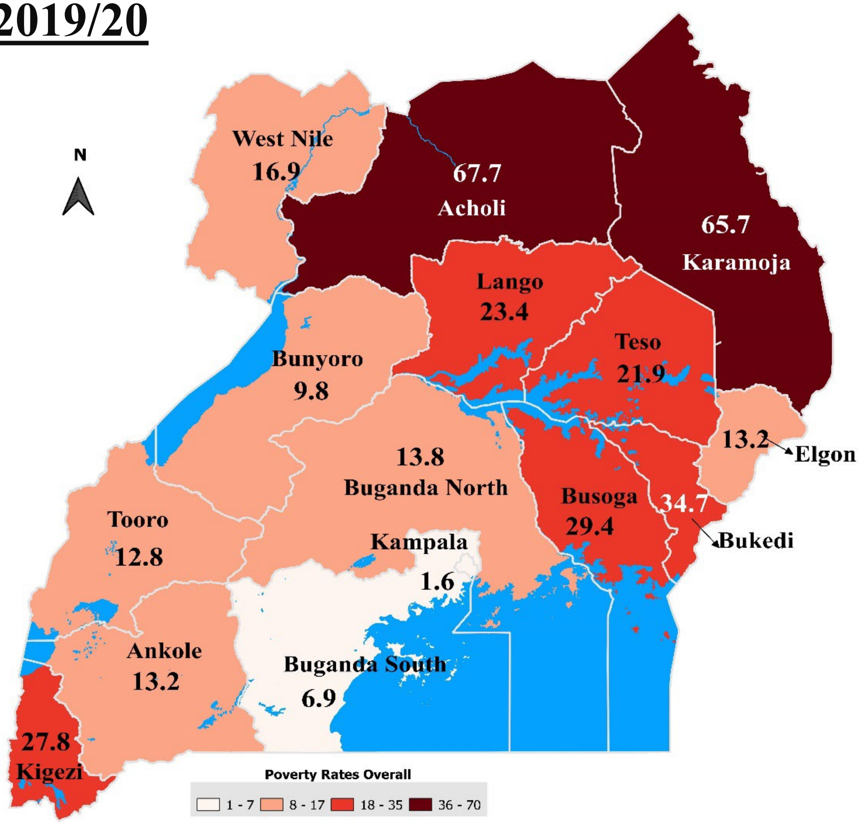
Source: IMF

1. COVID-19 Pandemic.....Continued

b. Increased poverty particularly in rural areas due to low demand for farm produce.



UNHS 2019/20



Source: UBOS (Uganda National Household Survey_2019/20)

- **Poverty during COVID-19 increased to 20.3% in FY 2020/21 from 18.7% in FY2019/20.**

1. Covid19 Pandemic.....Continued

c) Loss of jobs although the recovery was quick.

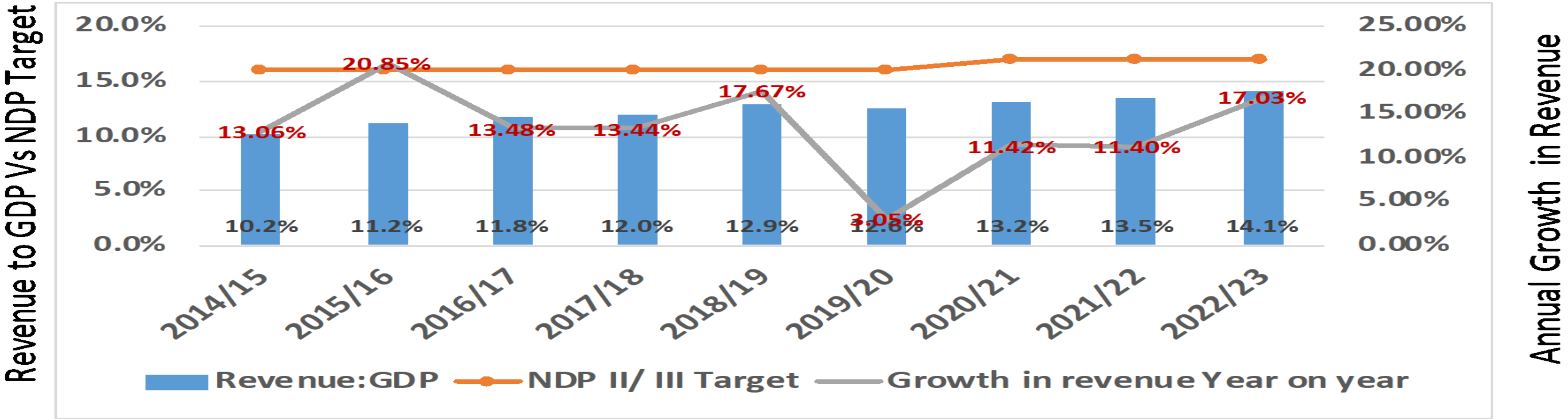
d) School dropouts and premature pregnancies.

e) Adversely impacted on domestic revenue mobilization, thus increasing the budget deficit and borrowing;

- Revenue to GDP ratio declined from 12.6% in FY 2019/20 from12.9% in FY 2018/19.

f) The multilateral financial institutions responded quickly to provide the required financing at no or very low cost.

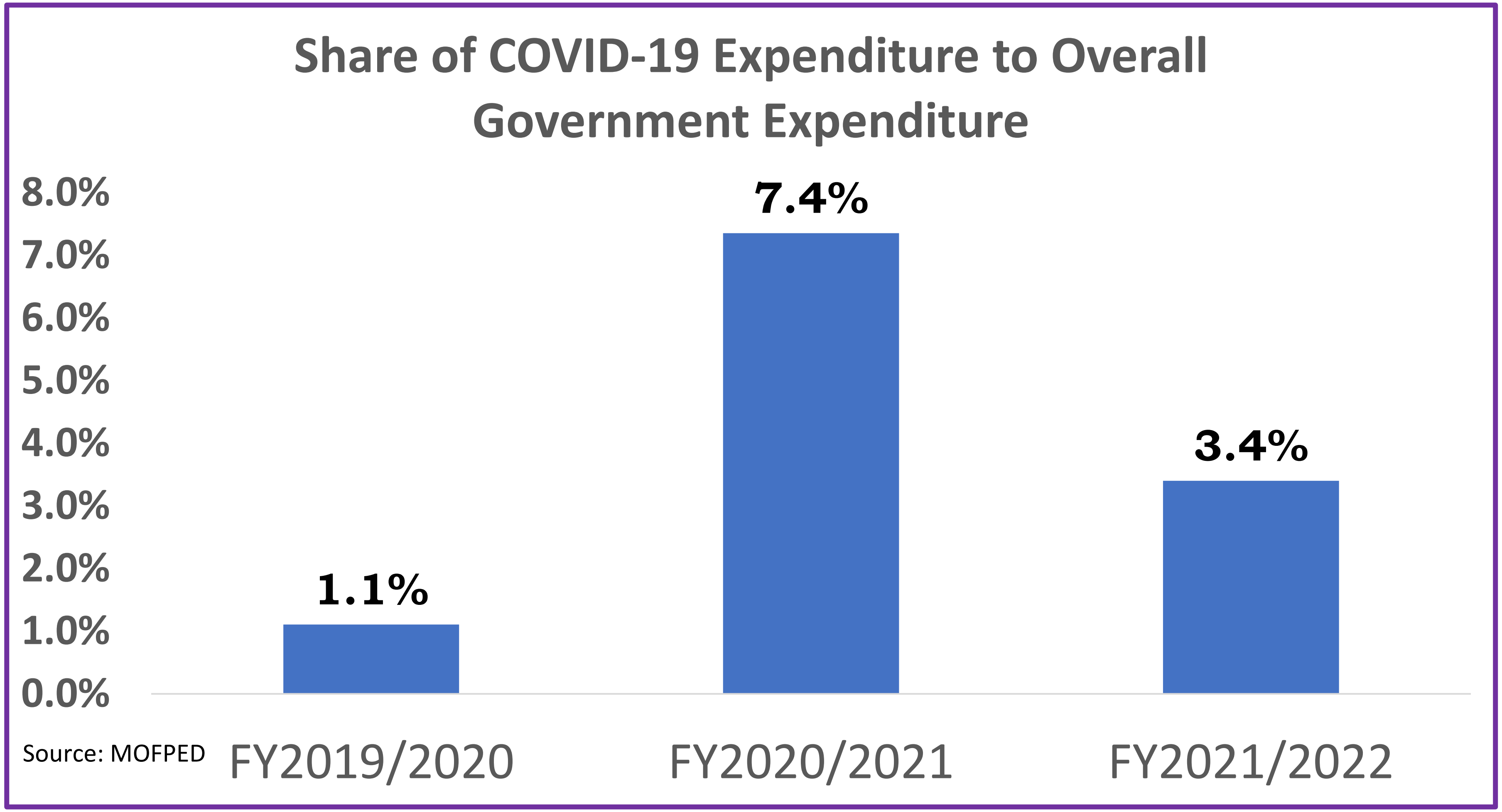
Uganda's Revenue Effort, FY 2014/15 – FY 2021/22



Source: *TPD, MOFPED*

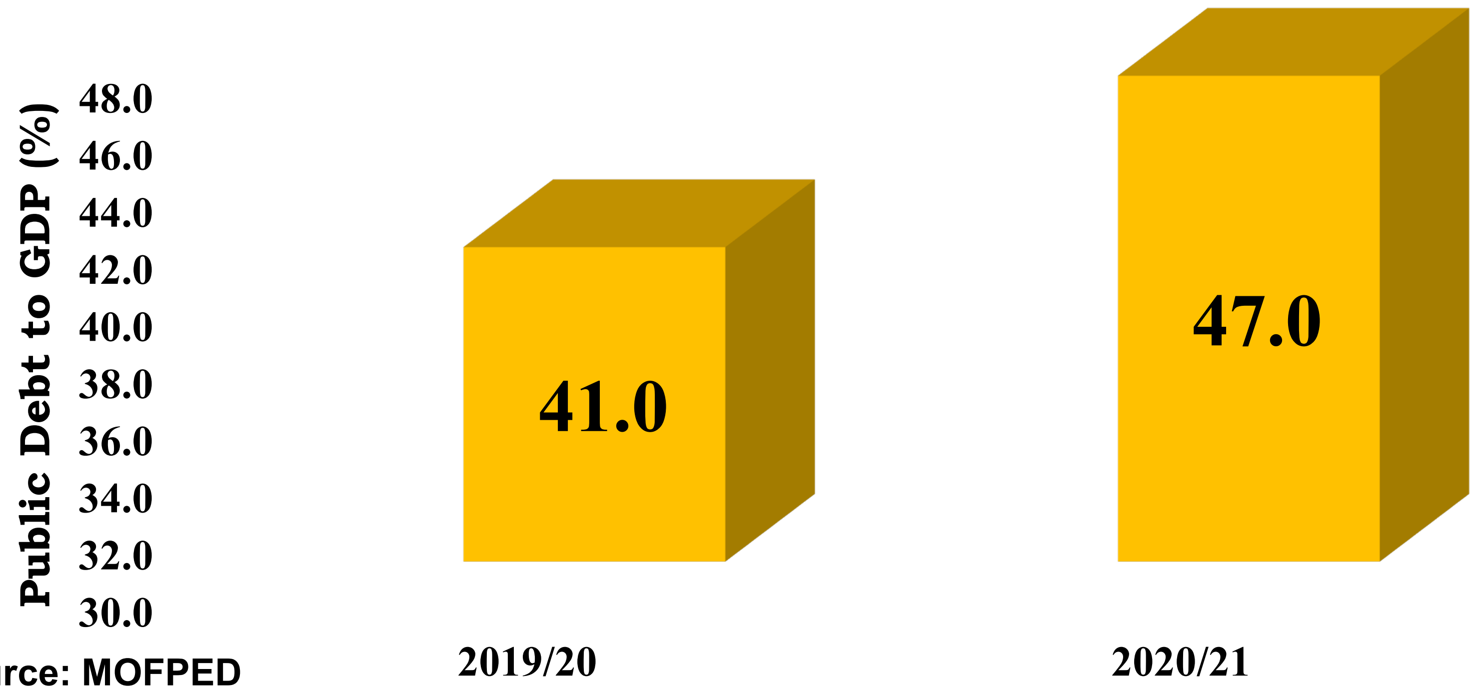
FY	Revenue Target	Actual	Variance
18/19	16.359	16.638	0.279
19/20	20.449	17.286	- 3,163
20/21	21.811	19.598	- 2,212
21/22	22.425	21.833	-0.592

Source: MOFPED; Ushs Billion.


Share of COVID-19 Expenditure to Overall Government Expenditure
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
1.1%
7.4%
3.4%
FY2019/2020
FY2020/2021
FY2021/2022
Source: MOFPED

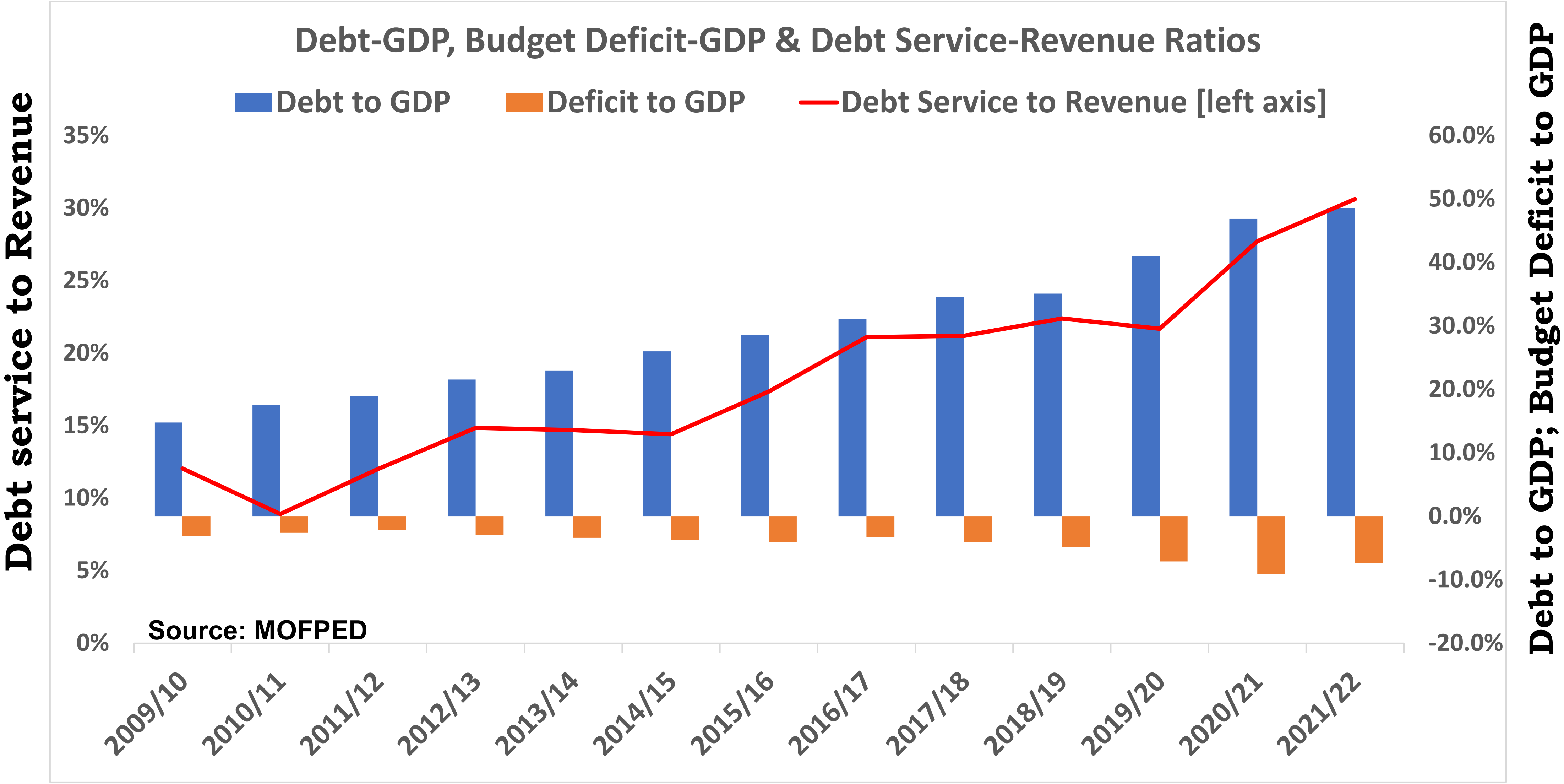
1. Covid19 Pandemic.....Continued

This increased public debt and the cost of debt service. As a result, our debt to GDP ratio moved from 41% to 47%, and the debt service cost to domestic revenue increased to 27.7 in FY 2020/21 constraining the fiscal space.



Source: MOFPED

1. Covid19 Pandemic.....Continued



2. Climate Change Effects

a. Floods and drought resulting in food shortages and internal displacements

b. Diversion of financial resources to deal with these emergencies

c. Tightening further the fiscal room/space that is available.

d. Supplementary expenditures leading displacement of some project funding and increased borrowing.

e. This leads to suboptimal budget outcomes as some of the planned activities are postponed.

f. This negatively impacted growth, but benefited the social welfare and social insurance programmes, which cushioned households from the full impact of the pandemic on poverty.

3. Regional conflicts

a. These shocks have been on and off, causing insecurity of persons and property

b. They cause disruptions in regional trade due to physical and non-tariff barriers

c. The response has involved:

- Increasing expenditure of defence and security
- Pacification missions coordinated regionally and internationally
- Implementation of Joint regional infrastructure projects, including transport and energy projects.
- Strengthening political cooperation through the EAC arrangement.

GOU RESPONSE TO THE SHOCKS

Short to medium term response

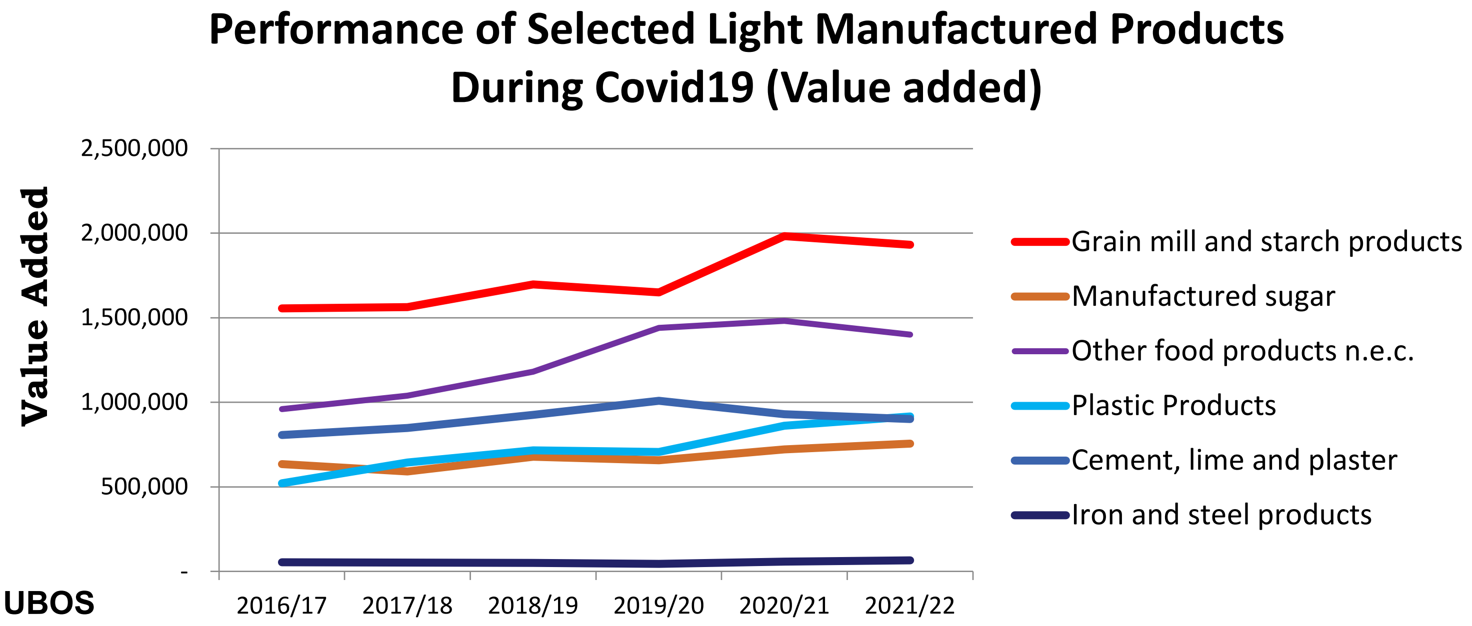
a) Sticking to appropriate sound fiscal and monetary policies to mitigate the impact of Covid-19 pandemic and price shocks.

b) Avoiding measures that could lead to long-term distortions in the economy *e.g. demand-side subsidies, tax cuts, price controls etc.*

c) Maintaining a competitive environment to support a continuous supply of the goods and services whose stream was constrained. This is intended to ensure that demand does not outstrip supply.

Short to medium term response

d) Supporting increased production of food and manufactured goods to ensure sufficient domestic supply, and to also take advantage of the rising global and regional prices to boost our export earnings.

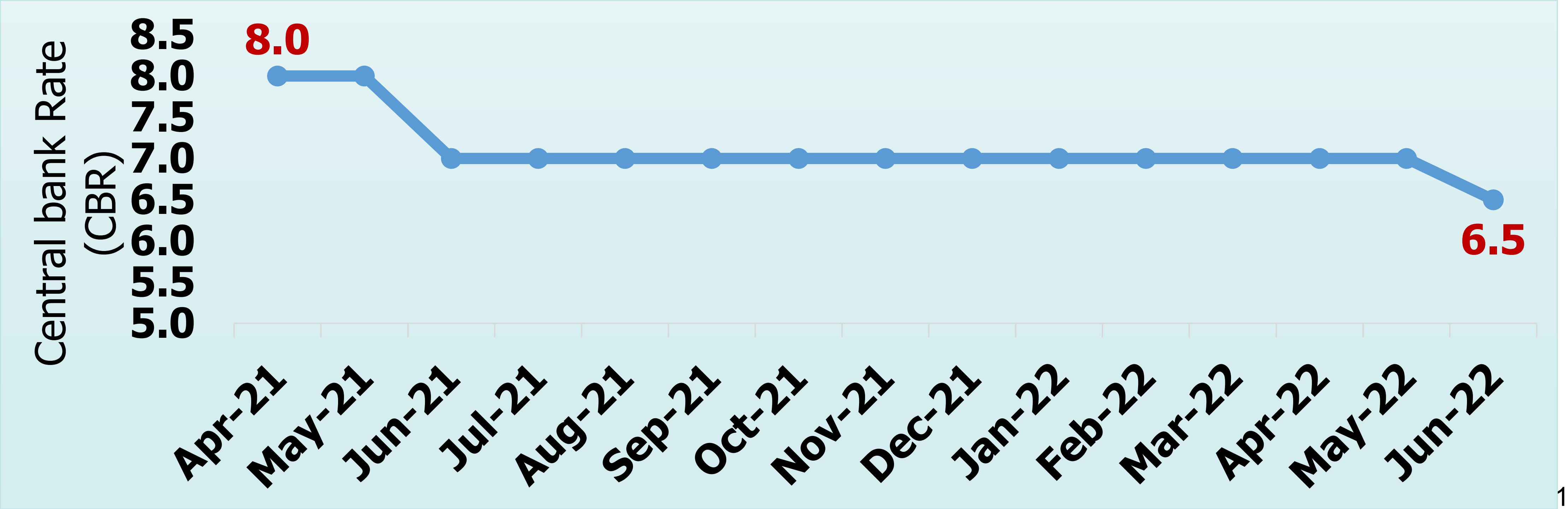


Primary DataSource: UBOS

Mitigation of COVID-19 Risks

Monetary Policy

a) Remained supportive of economic recovery while maintaining price stability. BoU reduced the CBR to as low as 6.5% in June 2021 from 8.0% in April 2020.



Mitigation of COVID-19 Risks

Monetary Policy

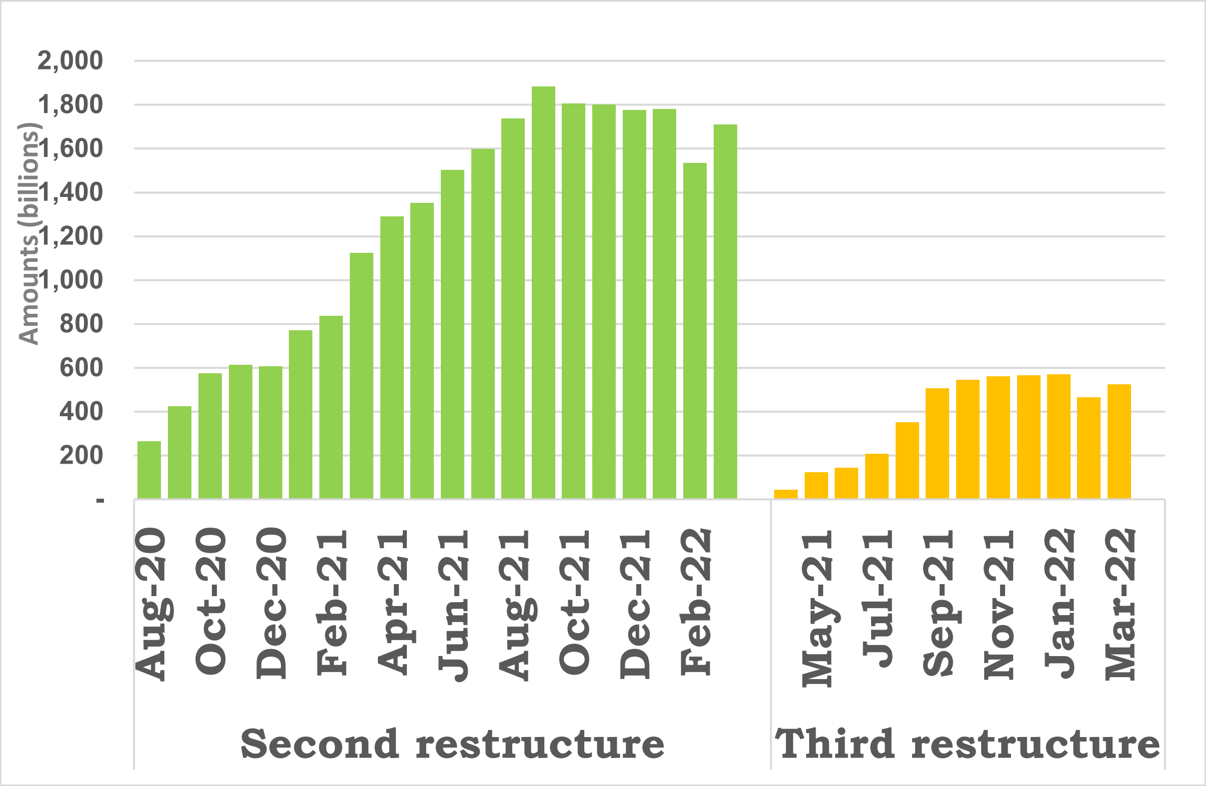
b) The Bank also provided exceptional funding facilities to maintain smooth access to money by the supervised financial institutions.

c) To aid borrowers that were affected by the pandemic, BoU provided Credit Relief Measures that permitted loan rescheduling for >a year.

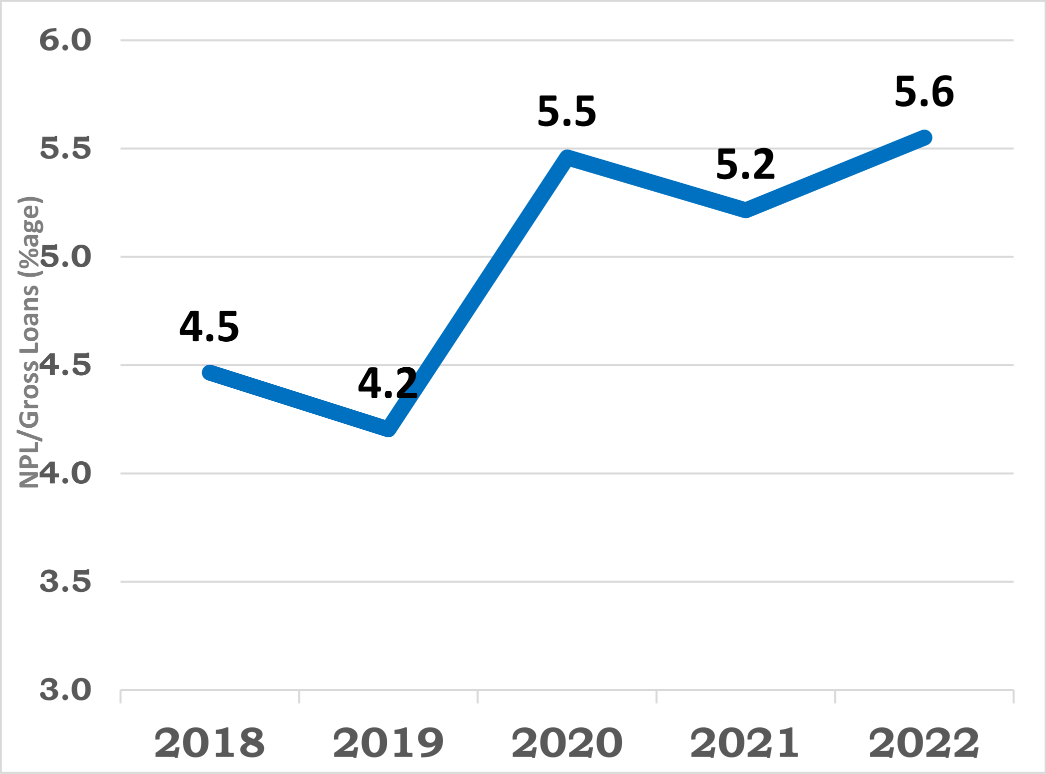
Mitigation of COVID-19 Risks

The CRM helped cushion borrowers from the COVID19 pandemic and preserve capital adequacy of banks

BOU Credit Relief Measures: Outstanding restructured Amount granted credit relief



Ratio of Non-Performing Loans to total loans Calendar Year Average (2022 only March & June)

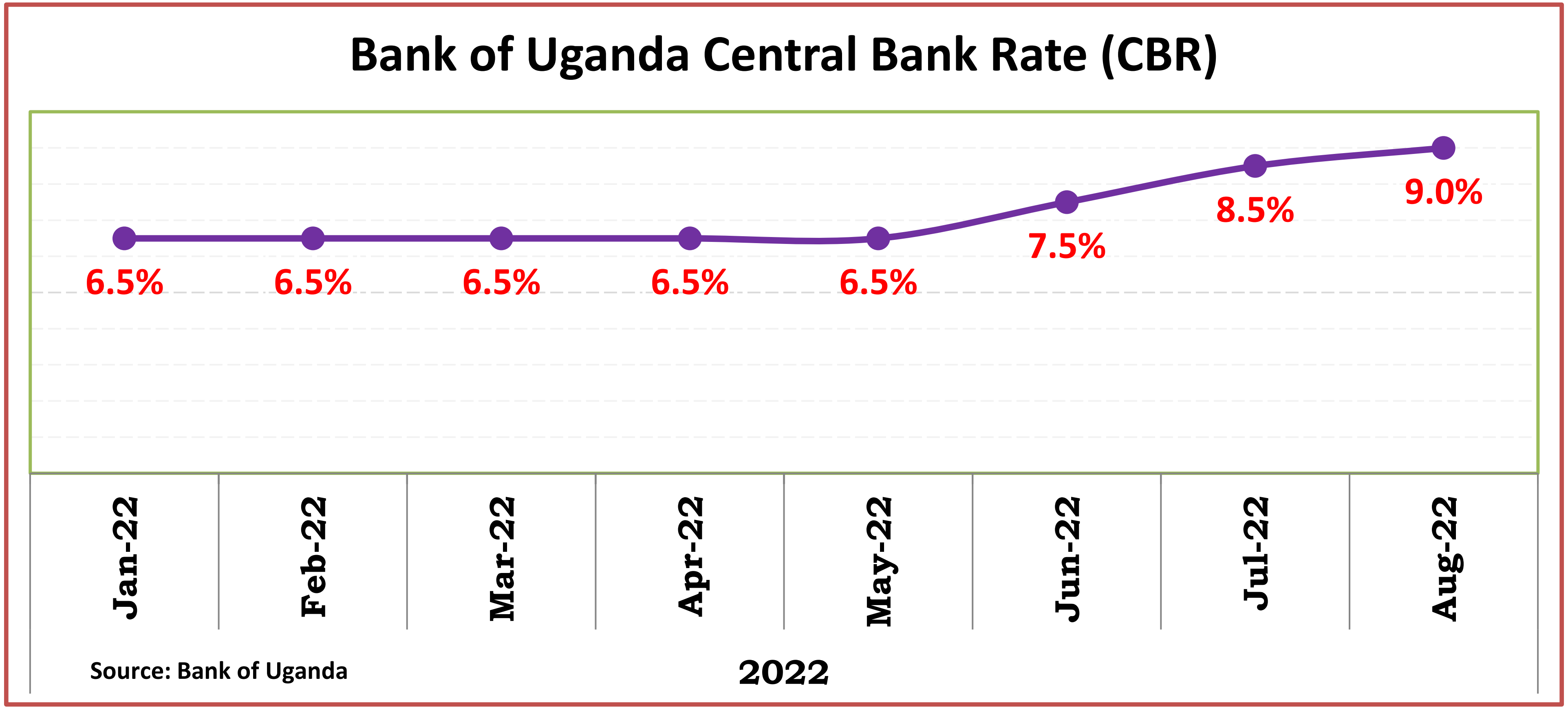


Source: Bank of Uganda

Mitigation of COVID-19 Risks

Addressing price shocks

a) The BoU has increased the policy interest rate to 9% in August 2022 from 6.5% in June, to curtain demand for credit.



Mitigation of COVID-19 Risks

Addressing price shocks

b) The Government also cut expenditure in Q1 of FY 2022/23 to support monetary policy actions.

c) GoU has prioritised debt service payments and other statutory obligations.

d) Focused expenditure on growth enhancing sectors with higher multiplier effects in economy to support recovery, create jobs and have high impact on poverty reduction.

Medium to Short Term Response

e) Sticking to appropriate sound fiscal and monetary policies to mitigate the impact of Covid-19 pandemic and price increase

LESSONS FROM UGANDA’S RESPONSE TO THE RECENT SHOCKS

1) A stable political environment that is decisive and communicates the key messages effectively, such as the justification for the SOPs, and the cost-benefit of the measures.
   a) Government's decisive move to arrest transmission of infections using nationwide lockdowns during the onset of the first and second wave of the COVID-19 pandemic averted what would have otherwise been a high death toll in the country.
   b) Uganda's was ranked globally amongst the top 10 best performing countries in the world in suppressing COVID-19 as of August, 2020.
2) Evidence based actions, supported by analytics to minimise costly interventions.
3) Macroeconomic stability, sound economic policies

4. A stable political environment that is decisive and communicates the key messages effectively, such as the justification for the SOPs, and the cost-benefit of Identifying and targeting the most vulnerable households and economic activities for support and recovery.
5. Open economy, trade openness and liberalised economy.
6. Allowing market-based economic dynamics, together with targeted Government interventions
7. Economic policy consistency (no policy reversals, not introducing price controls or subsidies, and not introducing export bans).
8. There were no caps on interest rates and Government did not intervene in the operations of private commercial banks. This allowed banks to appropriately assess risk and price it accordingly. This minimised the build-up of Non-Performing Loans.

9. Close coordination between fiscal and monetary policies (counter-cyclical measures).
10. Budget prioritization and maintaining fiscal flexibility to be able to address emerging issues.
11. A careful balance between saving lives, preserving livelihoods and keeping the economy moving, in the COVID 19 era.
12. Strengthening social safety nets, including social insurance payments.
13. No panic. Instead, give messages of hope for the population and for the economy.
14. Taking advantage of the opportunities created by the global shortage of imported items to produce them locally, and exporting the excess.
15. Digitizing the economy and supporting online business to lower cost of doing business.

KEY ACTIONS TO BUILD RESILIENCE INTO UGANDA'S GROWTH STRATEGY

1. Boosting domestic revenue mobilization—the effective implementation of DRMS
2. Ensuring fiscal sustainability, especially debt sustainability
3. Maintaining macroeconomic stability, through a coherent and cohesive coordinated fiscal and monetary policies, and financial measures
4. Trade openness and access to markets
5. Embracing a competitive environment to improve the quality for local and exports goods
6. Digitization of the economy to ensure business continuity, improving business competitiveness

7. Leveraging private sector financing to finance public investments, this requires putting in place an effective partnership framework for mutual benefit
8. Attracting and development of new technologies to cope with the rapidly changing global economic changes (dynamics)
9. A labour force equipped with skills to cope with domestic, regional and global labour needs
10. Adaptation—mitigating effects of climate change, attracting climate finance
11. Strengthening data and information systems for better targeting of Government programmes

THANK YOU

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