UGANDA

Table 1	2019
Population, million	45.7
GDP, current US$ billion	33.8
GDP per capita, current US$	738.4
School enrollment, primary (% gross)[a]	102.7
Life expectancy at birth, years[a]	63.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2017); Life expectancy (2018).

Hit by COVID-19, GDP growth more than halved to 3.1 percent in FY20, disrupting Uganda's steady structural transformation. The fiscal response was limited, especially for social transfers, while monetary policy has been loosened further, despite inflationary pressures. The recovery is expected to be gradual, with growth averaging 4.3 percent during FY21–22, driven by an acceleration after the 2021 elections. Extreme poverty has risen, especially among urban informal workers, but was limited by the resilience of food crop output.

Key conditions and challenges

Prior to the COVID-19 outbreak, structural transformation was driving a decline in poverty, despite a slowdown in average economic growth over the last decade. The transformation was characterized by a reduction in the total workforce employed in agriculture and a take-off in industrial production, largely in agro-processing. Notwithstanding shifts to higher productivity jobs, per capita real GDP growth decelerated to 1.3 percent in the five years prior to the COVID-19 crisis, from 2.2 percent between 2010 and 2015, as population growth climbed further to 3.7 percent per year. As a result, total factor productivity growth remains negative. Furthermore, the poor remain highly vulnerable to shocks, as seen in the temporary rise in poverty following the 2016/17 drought.

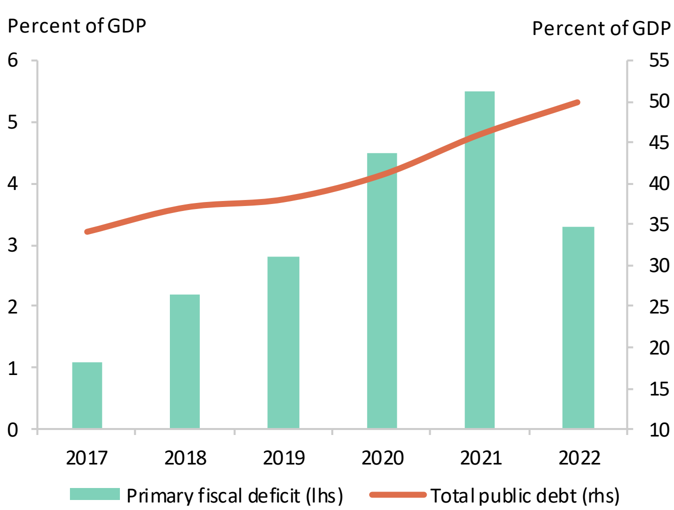
COVID-19 is threatening to reverse the declining poverty trend from the past decade, with widespread closure of firms, permanent layoffs in industry and services, and a rapid slowdown of economic activity for particularly the urban informal sector. These losses will be further aggravated by weak growth in FY21, which is expected at about 3 percent due to substantially reduced tourism revenues, and smaller remittances and FDI inflows that will dampen private consumption and investment. In addition, credit is likely to be restricted considering the deteriorating asset quality in the banking sector, marked by an almost doubling of non-performing loans to 6 percent within three months of the COVID-19 crisis hitting Uganda. Furthermore, the impact of the pandemic appears to be deepening, with community infections accelerating in the first quarter of FY21 (July–September 2020). It is unclear how the government will respond to increasing infections due to the runup to presidential elections.

Recent developments

Hit by the COVID-19 crisis, real GDP growth more than halved to 3.1 percent in FY20 from 6.8 percent in FY19. A lockdown that lasted for several months and border closures instituted in March 2020 have dampened domestic demand and aggravated the effects of the external shock. Consequently, output contracted by 3.2 percent in the fourth quarter of FY20, driven by a deceleration in private consumption, fall in exports and drop in externally financed public investments. The decline in real private consumption per capita has also increased poverty.

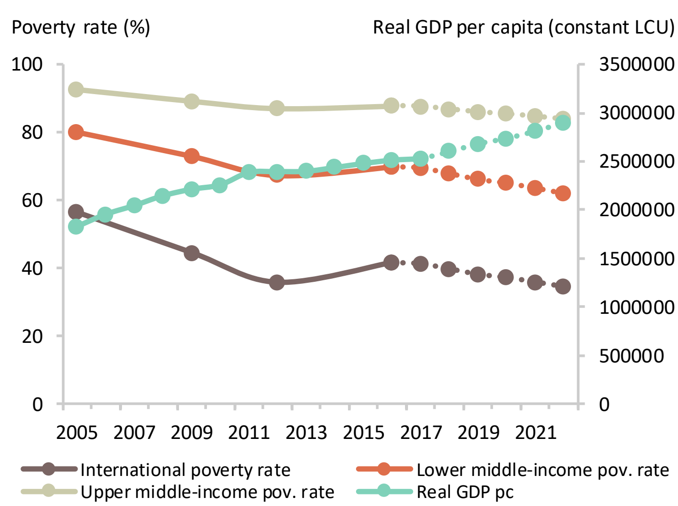
Despite inflationary pressures, the central bank reduced the policy rate to 7 percent in June to counteract the economic shock. The increase in prices of imported consumer goods, from higher taxes to encourage import substitution, led to a more than doubling of annual core inflation to 5.8 percent in July from 2.5 percent in March, which is above the 5 percent core inflation target. However, the decline in

FIGURE 1 Uganda / Evolution of primary fiscal deficit and public debt



Sources: Ministry of Finance, Planning and Economic Development.

FIGURE 2 Uganda / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

crop prices and deceleration in energy price increases, together with subdued demand, have limited the overall price increase.

The economic slowdown has likely narrowed the current account deficit to 7.5 percent of GDP in FY20 from 7.8 percent in FY19. While the contraction in imports outpaced the slowdown in exports, the financing of the external shortfall changed. Net FDI inflows declined 30 percent in FY20 compared to FY19 and the government borrowed from IFIs US$800 million and drew down foreign reserves by US$200 million, which were at 5 months of imports in July 2020.

With revenues plummeting due to the economic slowdown and deferred tax payments to support businesses, the fiscal deficit widened to 7.2 percent of GDP in FY20. The budget for FY21 has not enhanced the protection of the poor but maintains physical infrastructure as the priority for government spending.

Outlook

The pandemic is expected to slow the recovery. Real GDP growth set to average 4.3 percent over the next two years, moderated further by pre-election uncertainty. An expected rebound to 5.9 percent in FY22 is insufficient to close the output gap and is predicated on an acceleration in private consumption and investments and supported by higher growth in exports as the global economy stabilizes. The latter is assumed to benefit from the rollout of a vaccine in 2021. Inflation is expected to reach 6 percent by early 2021—exceeding the inflation target of 5 percent—but decelerate thereafter to within the target.

The government has budgeted a deficit of almost 10 percent of GDP in FY21, driven by capital spending. Nevertheless, a shortfall of close to 8 percent is expected given limited financing options. While assessed at low risk of external debt distress, vulnerabilities worsened with public debt projected at around 50 percent of GDP by 2022, with some public debt liquidity indicators corresponding to countries at high risk. Risks may deteriorate due to nonconcessional borrowing from foreign commercial banks and more reliance on the domestic market, where 1-year treasury bill yields have been between 12–13 percent since January 2020.

The rebound in imports and delayed recovery in exports will see a gradual expansion of the current account deficit to around 8 percent of GDP over the next two years. The hovering of oil prices around US$40–45/barrel—three-fourths of the estimated breakeven price in Uganda—could further delay a final investment decision and thus shift oil exports beyond 2025.

The key transmission channel for the negative impact of COVID-19 on households is through the labor market. Work stoppages in June and reduced labor income during March-June 2020 were more pronounced in urban areas and among those employed in non-farm activities. As a result, extreme poverty is projected to increase. The size of the increase is, however, uncertain given that the full impact of the pandemic is still unknown.

TABLE 2 Uganda / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.8	6.2	6.8	3.1	2.8	5.9
Private Consumption	1.2	6.0	6.3	2.7	1.9	4.6
Government Consumption	12.9	11.6	6.9	0.9	15.9	2.1
Gross Fixed Capital Investment	5.1	5.5	9.9	2.8	3.3	8.9
Exports, Goods and Services	31.0	9.3	11.2	-7.5	6.2	14.6
Imports, Goods and Services	4.7	8.8	12.1	-7.8	8.3	10.2
Real GDP growth, at constant factor prices	3.8	6.2	6.8	3.1	2.8	5.9
Agriculture	2.8	4.4	5.3	4.4	3.5	4.1
Industry	6.8	6.5	10.1	2.3	3.0	6.9
Services	2.6	7.1	5.6	2.9	2.3	6.2
Inflation (Consumer Price Index)	5.7	3.4	3.1	2.9	5.0	5.0
Current Account Balance (% of GDP)	-3.3	-5.6	-7.9	-7.5	-7.8	-8.5
Net Foreign Direct Investment (% of GDP)	2.3	2.8	3.5	2.6	2.4	3.0
Fiscal Balance (% of GDP)	-3.3	-4.1	-4.9	-7.2	-7.8	-5.5
Debt (% of GDP)	33.0	36.2	37.3	40.2	46.2	49.9
Primary Balance (% of GDP)	-1.2	-2.2	-2.8	-4.5	-5.5	-3.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.