UGANDA

Table 1	2020
Population, million	45.7
GDP, current US$ billion	30.7
GDP per capita, current US$	671.8
International poverty rate ($1.9)[a]	41.3
Gini index[a]	42.8
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	63.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011PPPs.
(b) WDI for school enrollment (2017); life expectancy (2018).

The COVID-19 crisis pushed the economy into three consecutive quarters of GDP contraction and revealed weaknesses in Uganda's path towards industrialization. Consequently, revenue shortfalls deepened, while current spending rose compared to last fiscal year, and inflationary pressures abated. Growth is expected to worsen in FY21 before recovering in FY22–23 with the rollout of COVID-19 vaccines. Extreme poverty is also expected to rise, especially in urban areas.

Key conditions and challenges

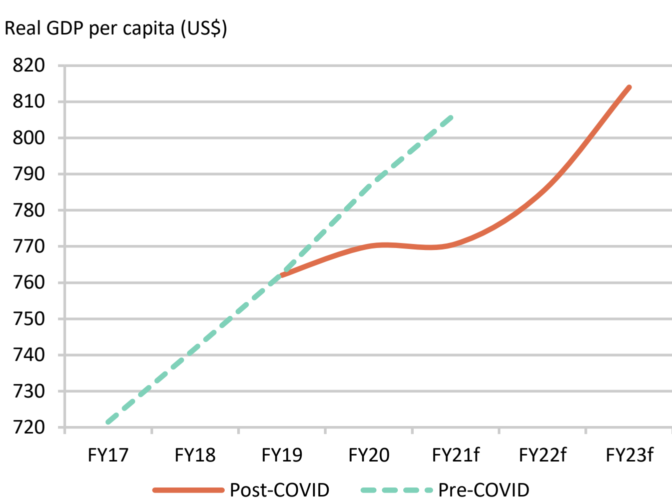
Prior to the COVID-19 outbreak, structural transformation was driving a decline in poverty, despite a slowdown in trend economic growth over the last decade. The transformation was characterized by a sizable reduction in the workforce employed in agriculture to between 60–65 percent from 75 percent a decade ago, 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 to 3.7 percent per year. Nevertheless, poverty is projected to have declined from 41.3 to 40.2 percent between 2016 and 2019. However, the poor remain highly vulnerable to shocks, as seen in the temporary rise in poverty following the 2016/17 drought.

COVID-19 may reverse the declining poverty trend from the past decade, with widespread closures of firms, permanent layoffs in industry and services, and a rapid slowdown of economic activity, especially in the urban informal sector. The economic scarring is likely to persist over the long run as real per capita income will struggle to catch up with levels expected before the crisis (Figure 1). The lack of social safety nets has resulted in the displacement of labor from urban employment back to low-productivity farming. Meanwhile, rising debt vulnerabilities curtail fiscal measures to accelerate growth and improve the quality of public investment in human and physical capital that is needed to enhance productivity. The government could use the crisis to replace inefficient spending programs such as, for example, Operation Wealth Creation, with better approaches to boost productivity. Furthermore, the agricultural supply chain would benefit from investments in post-harvest storage facilities that would improve the quality and reliability of supply for the domestic manufacturing sector.

Recent developments

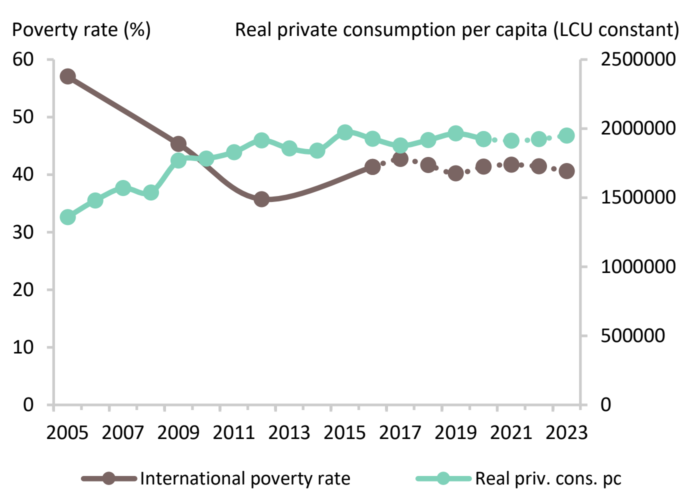
With the full impact of the COVID-19 shock in FY21, real GDP growth is expected to decline to 1–2 percent compared to 2.9 percent in FY20. Growth contracted in the first quarter of FY21 (July–September 2020) by 2.2 percent (yoy)—the third consecutive quarter of negative growth—driven by a sharp decline in services, mostly tourism, and was offset in part by a mild recovery in industrial production. Meanwhile, inflationary pressures have abated, despite expansionary monetary policy and financial policies aimed at easing liquidity for banks and businesses. Lower growth narrowed the current account deficit by 1 percentage point to 5.9 percent of GDP in FY20, as both exports and imports declined by US$3.3 billion and outflows of investment

FIGURE 1 Uganda / Evolution of real GDP per capita (US$) as projected pre- and post-COVID



Sources: UBOS and UN, WB staff calculations through MFMOD.

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



Source: World Bank. Notes: see Table 2.

income and employee compensation decelerated.

Despite a near full recovery of employment after lockdown measures were lifted by August 2020, household incomes have not returned to their pre-pandemic levels. Private consumption per capita is projected to shrink 2.7 percent between 2019 and 2021, resulting in a 1.5 percentage point increase in poverty by end-2021 (Figure 2). The transmission channel for the impact on household incomes is largely employment and income losses in service and industry sectors.

The fiscal deficit is estimated to have widened to 9 percent of GDP in the first half of FY21 from 6.6 percent during the same period of FY20. The decline in direct taxes reflects tax deferments and business closures, while the drop in VAT and excise duties mirrors the slowdown in private consumption and imports. The government's spending response to the crisis has included an acceleration in military expenditures, which rose 45 percent since the start of the crisis (March to November) compared to the same period the year before. Spending on health and education, meanwhile, increased 30 and 15 percent, respectively, which included the hiring of temporary workers to help manage the pandemic.

Outlook

The displacement of labor and an uncertain post-election period will slow the recovery from the ongoing COVID-19 crisis, with real GDP growth expected to pick up in FY22–23. This rebound, averaging 5.6 percent in FY22–23, is predicated on a pick-up in private consumption and investment, supported by higher growth in exports as the global economy recovers. The latter is assumed to benefit from the global rollout of COVID-19 vaccines in 2021. A more prolonged downturn in tourism revenues, further subdued inflows of remittances, and delays in the final investment decision by companies in the oil sector could result in growth dropping to 4.5 percent over FY22–23.

Accompanied by rising debt vulnerabilities over the medium term, the fiscal deficit is projected to remain above 5 percent on average in FY22–23. Despite an expected correction in the primary deficit to 2 percent of GDP by 2023, public debt is likely to exceed 51 percent of GDP by 2023. Debt risks will become more pronounced if there is a bigger than expected reliance on domestic borrowing, where 1-year treasury bill yields have averaged around 13 percent since July 2020. On the upside, oil prices have recovered more than expected, with Brent crude above US$60 in February 2021. This increases the likelihood of oil companies taking the final investment decision, which would unlock large FDI inflows and an investment boom.

The expected slow recovery in private consumption means the poverty rate is unlikely to return to pre-COVID levels before 2023. According to the World Bank's projections, poverty will be 40.6 percent in 2023, still 0.4 percentage points higher than in 2019. The size of the increase in poverty may change given that the full impact of the pandemic is still unknown and will also depend on government's handling of the ongoing crisis.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.2	6.8	2.9	2.0	4.7	6.4
Private Consumption	6.0	6.2	1.2	2.3	3.4	4.0
Government Consumption	11.6	6.9	6.0	11.2	-1.6	5.6
Gross Fixed Capital Investment	5.5	9.9	0.7	2.0	8.9	10.1
Exports, Goods and Services	9.3	6.8	0.4	3.2	14.6	14.2
Imports, Goods and Services	8.8	8.1	-6.2	8.3	10.2	9.1
Real GDP growth, at constant factor prices	6.2	6.8	2.9	2.0	4.7	6.4
Agriculture	4.4	5.3	4.8	3.5	4.1	4.2
Industry	6.5	10.1	2.2	2.8	5.3	7.6
Services	7.1	5.7	2.3	0.7	4.6	6.9
Inflation (Consumer Price Index)	3.4	3.1	3.0	4.0	4.5	5.0
Current Account Balance (% of GDP)	-5.3	-6.8	-6.1	-8.3	-7.7	-7.0
Net Foreign Direct Investment (% of GDP)	2.8	3.5	2.6	2.3	2.8	3.1
Fiscal Balance (% of GDP)	-4.1	-4.9	-7.2	-8.3	-5.6	-4.9
Debt (% of GDP)	36.2	37.3	41.1	47.5	50.6	51.4
Primary Balance (% of GDP)	-2.1	-2.8	-4.5	-5.5	-2.8	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	41.6	40.2	41.4	41.7	41.4	40.6

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

(a) Calculations based on 2016-UNHS. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 0.87 based on private consumption per capita in constant LCU.