SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Uganda

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Key messages

- The first evidence of a slowdown in economic activity looks to confirm the Ugandan government's estimates of a decline in economic growth to between 3% and 4% for FY 2019/20, mostly because of a significant slump in exports and domestic demand.
- The government is in discussions with the IMF and the World Bank to seek additional budget support to mitigate the impact of COVID-19 in the country.
- The COVID-19 outbreak started in the rainy season. The ongoing countrywide lockdown may disrupt seasonal prevention activities for malaria and other water-borne diseases, which risks increasing related mortality and morbidity.

Introduction

Uganda reported the first COVID-19 case on 21 March 2020. As of 7 April, a total of 52 cases were confirmed, with 0 deaths. The government has taken a series of strict containment measures, including quarantine, bans on public gatherings, school and border closures, suspension of international flights, a ban on internal movement and closing non-essential retail outlets, initially until 12 April 2020.

Between 2009/10 and 2018/19, the economy saw GDP per capita growth at an average of 2.5%. The economy experienced a deep transformation, moving from agriculture to the industrial sector. In 2016, per capita domestic general health expenditure accounted for $19.39 purchasing power parity, whereas external health expenditure was at $47.29. This compares with $51.9 and $27.9 in Kenya.

Economic and social impacts

Trade and production impacts so far

As of 7 April, the government had not published any official figures on the primary impact of COVID-19 on the economy. However, on 19 March, the Ministry of Finance, Planning and Economic Development made a statement assessing its potential economic impact.

On 6 April 2020, the Bank of Uganda (BOU) estimated a decline in economic growth to between 3% and 4% for FY 2019/20. BOU also projects GDP growth to gradually recover in the second half of FY2020/21, with the emerging output gap persisting until 2022.

Local and global restrictions are expected to have the largest impact on domestic services (especially trade, transportation and accommodation), which contributed 43.3% to total GDP in FY 2018/19 and 42.4% (4.2 million people) of total employment.

Industry and agriculture will be affected mostly through material and labour shortages. On 19 March, the government estimated an overall decline in imports, by 44%, in March–June 2020.

The government further expects a significant decline in export earnings, given lower domestic output levels, a decline in global demand and travel restrictions. Corroborating this, the April report of the Purchasing Managers' Index (PMI)[1] found reductions in output, domestic and foreign orders and employment because of the outbreak, after a 37-month expansion period.

The government estimates that the current account balance will widen to a deficit of $3.71 billion (12.7%), from $3.3 billion in FY2018/19, with a decline in foreign exchange reserves. Deterioration of the balance of payments is expected to result in exchange rate depreciation. Primary inflation data do not indicate a domestic price level rise. BOU forecasts an inflation rate of 2–3% in 2020, owing to limited external inflationary pressures resulting from the slump in global demand and collapse in the crude oil price.

[1] A composite index calculated as a weighted average of five sub-components: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%), compiled through a business survey in around 40 countries.

Finance

Early evidence suggests the effects of COVID-19 have already contributed to a depreciation of the exchange rate of 2.2% between February and March 2020.

The government has projected a significant decline in FDI and remittances, as well as shifts in portfolio allocations. It estimates a decline in project loan disbursements by 50% owing to anticipated delays in project execution and disruptions to input supply.

The crisis will likely severely affect the financial sector. With around 45% of outstanding private sector credit to trade, tourism, transportation and construction, the banking industry is expected to suffer losses through defaults. An increase in non-performing assets by 50% in the above sectors would push the non-performing loan ratio from 4.7% to 5.9%. Increasing lending risks, potential savings losses and a likely increase in the rate on treasury instruments (owing to increased fiscal pressures) are indications of a future credit crunch.

Social impact

The anticipated impacts on employment and prices could push many people into poverty. Human Rights Watch has raised concerns about excessive force, such as beatings, shootings and arbitrary detention, and other abuses being used to enforce recent government measures designed to contain the spread of COVID-19. Moreover, new measures give rise to opportunistic discrimination. The pandemic may also affect already food-insecure regions, in particular Karamoja in the North-East.

Fiscal impacts

The government estimates domestic revenue shortfalls of UGX 288.3 billion ($76 million, 0.7% of the budget) in FY 2019/20 and UGX 350 billion ($93 million, 0.9%) in FY 2020/21, largely because of a reduction in international trade taxes. The health financing requirement is an estimated UGX 25 billion ($7 million) if the virus does not spread significantly internally. The current situation suggests revising this upwards. Additional resources will be needed to put in place adequate stimulus packages to protect the economy.

Revenue shortfalls and mitigation expenditures combined with anticipated input shortages are likely to delay the completion of government development projects, specifically in transport and energy.

Monetary and financial policy

On 20 March and 6 April, BOU committed to measures to mitigate the impact of COVID-19 on financial stability and economic growth:

- Interventions in foreign exchange markets to smooth excess volatility and stabilise prices;
- Provision of emergency liquidity assistance for up to a year to institutions supervised by BOU;
- Waivers of limitations on restructuring of credit facilities;
- Ensuring of adequate contingency planning in financial institutions; and
- Purchase of risk-free assets from financial institutions to ease liquidity pressures.

BOU has reduced fees on mobile money transactions and shortened bank opening hours. It has further reduced the central bank rate by 1 percentage point, to 8%, and directed financial institutions to defer payments of discretionary distributions. The government is currently discussing support measures with the IMF to ensure stability of the balance of payments and the exchange rate through sufficient international reserve buffers at BOU. To moderate volatility, the Uganda Securities Exchange has suspended mobilisation of shares until further notice.

Fiscal policy

As well as IMF support, the government is seeking a budget support loan on concessional terms worth $100 million for FY 2019/20 and $90 million for FY 2020/21 from the World Bank. It is further discussing setting up a fund under Uganda Development Bank to provide funds to the distressed private sector.

Most support to health has been provided off budget so far; there is need to reallocate the Ministry of Health budget to manage the COVID-19 response. While not pronouncing itself on any direct social protection measure, the government has committed to distribute food to those most affected by the crisis.

Other policy

To limit the impact of the crisis on ordinary Ugandans, specifically the poor, the government is discussing with financial institutions and utility providers an increase in tolerance on the non-payment of outstanding duties.

Donor support

No information is currently available on donor support to the COVID-19 response. However, the president has announced potential IMF and World Bank support.

Information in this note is correct as of 7 April 2020. The authors are ODI Fellows with the Ministry of Finance, Planning and Economic Development and Ministry of Health; this note is written in a personal capacity. Comments welcome to j.steverding.fs@odi.org.uk