



**AFRICAN
DEPARTMENT**



A DIFFICULT ROAD TO RECOVERY

NOVEMBER 20, 2020

Regional Economic Outlook – Outreach for Uganda

Roadmap

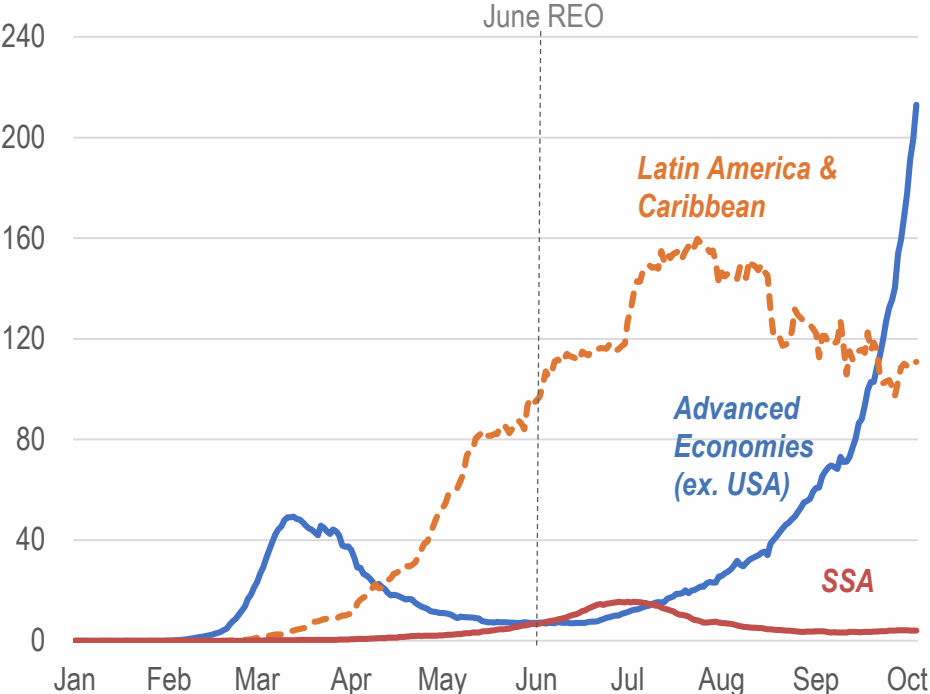
- Health Developments
- Impact on the Region
- Outlook and Policies
- Uganda Corner

Health Developments

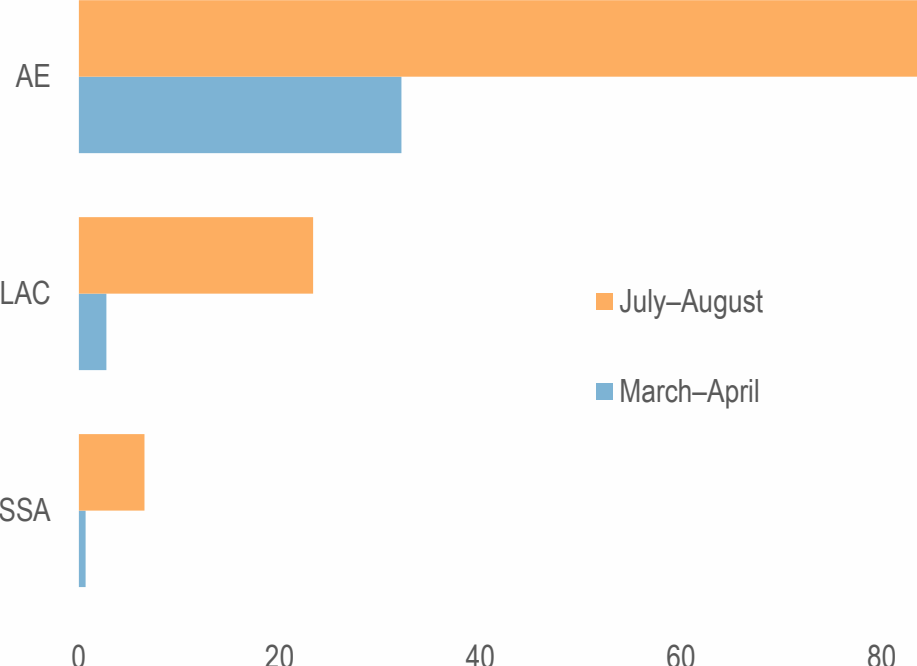
Lower cases and out of sync with the rest of the world

New COVID Cases, Selected Regions

(Per million population, 7-day moving average)



Number of COVID-19 Tests per 1,000 People

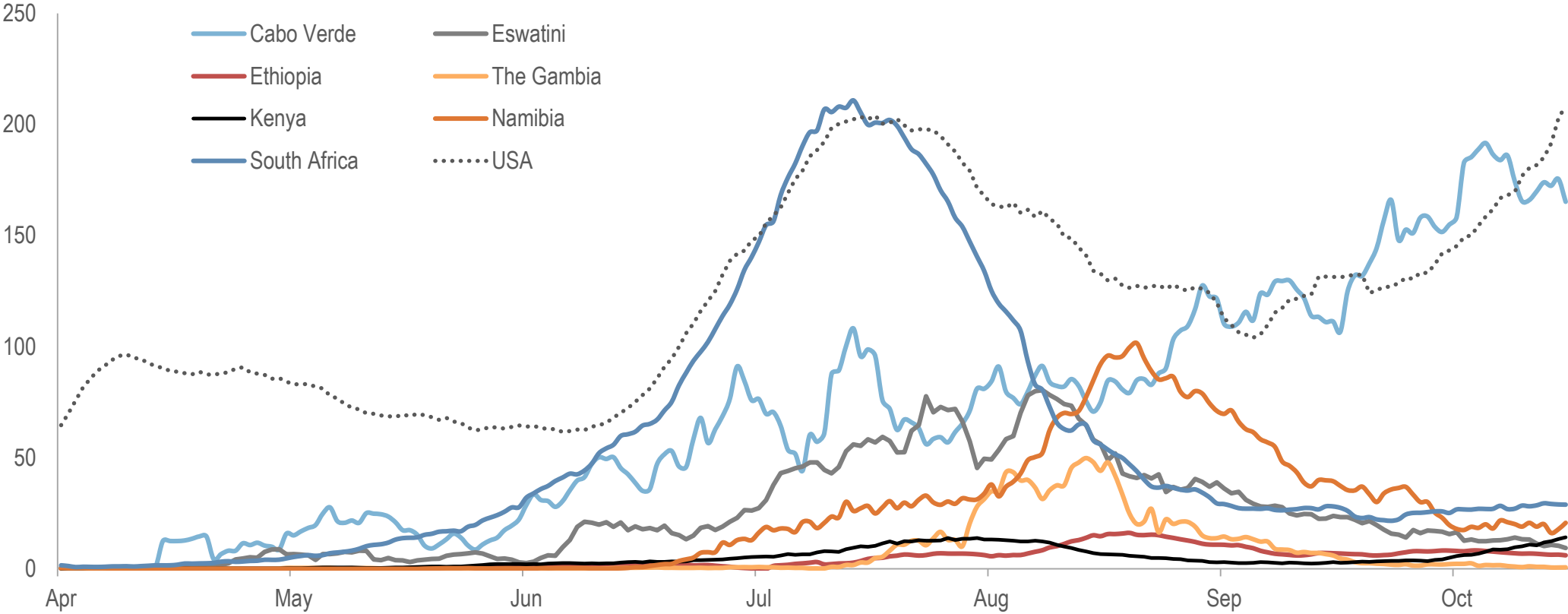


Sources: Johns Hopkins University COVID Tracker, Our World in Data, and IMF staff calculations.

However, the regional experience is far from uniform

New Confirmed Cases of COVID-19 per Million, SSA and USA

(7-day moving average)



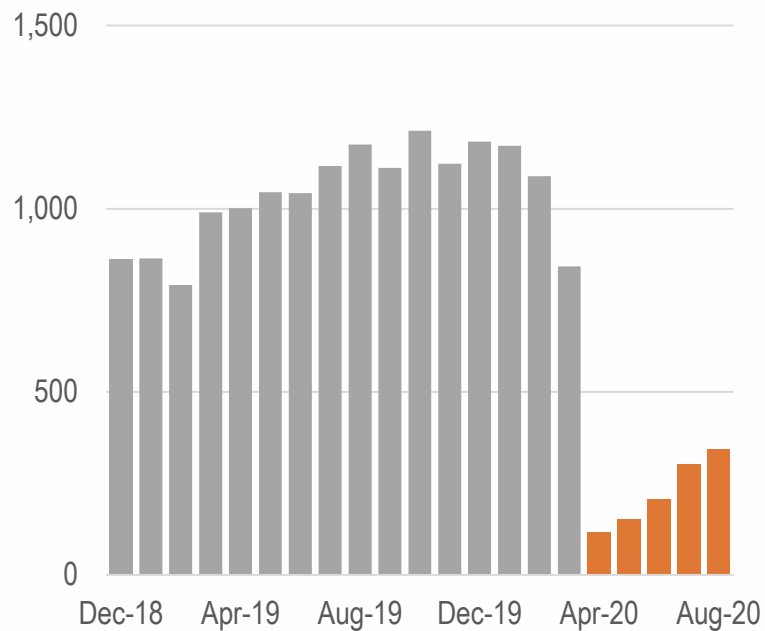
Sources: Johns Hopkins University COVID Tracker and IMF staff calculations.

Impact on the Region

Lockdowns weighed on travel, trade, and commodities

Flight Arrivals in SSA

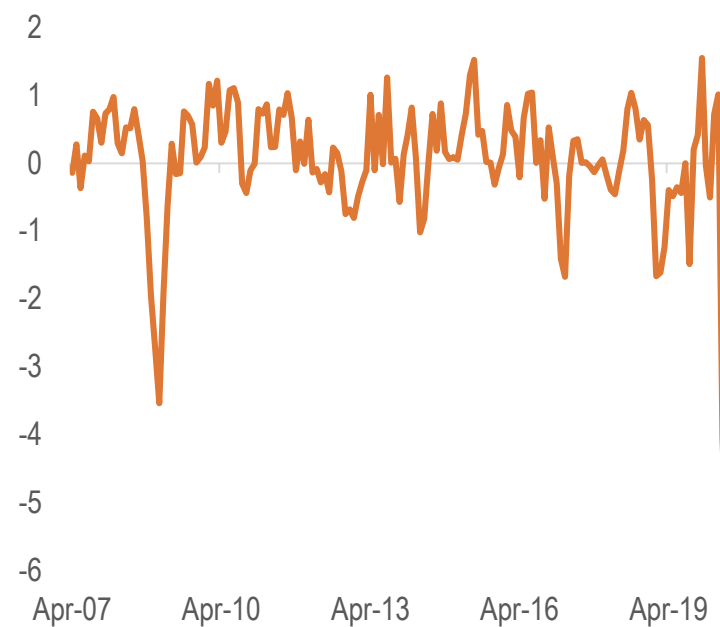
(Flights per month, mean)



Sources: FlightRadar24 and IMF staff calculations.

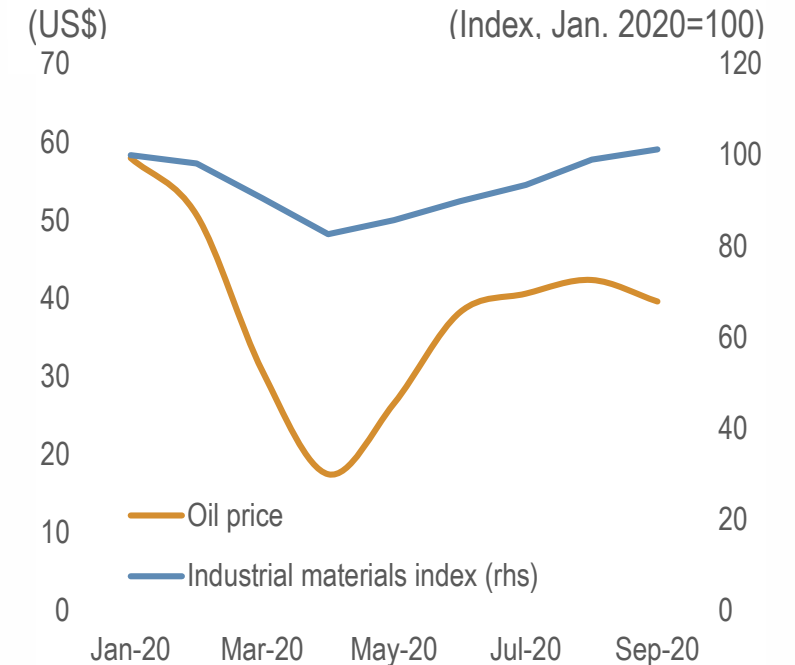
Export Volumes: Africa, Middle East

(Percent change, 3-month moving average)



Sources: CPB World Trade Monitor and IMF staff calculations.

Oil and Non-oil Commodity Prices

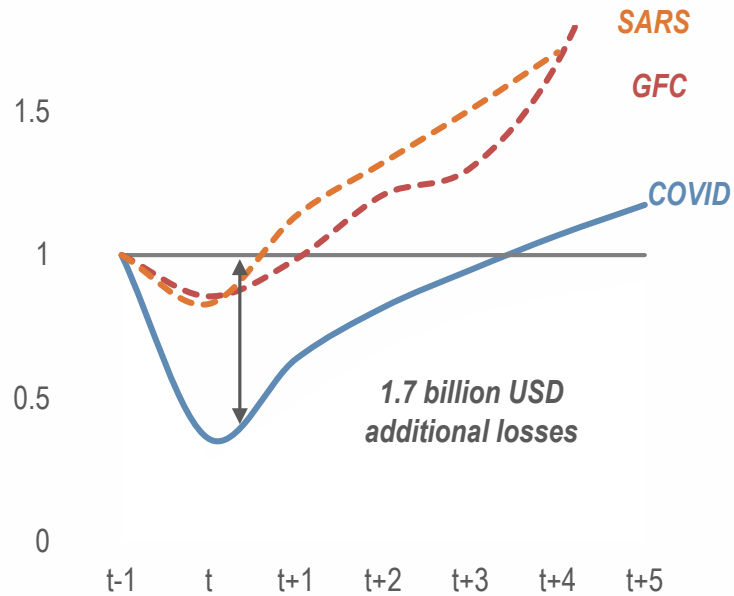


Sources: Haver Analytics and IMF staff calculations.

...devastating tourism-dependent countries

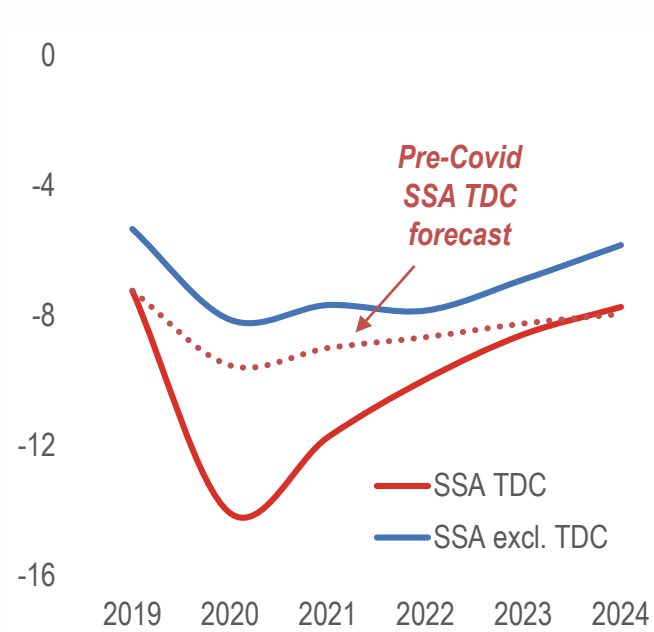
Projected Tourism Export Receipts

(Index)



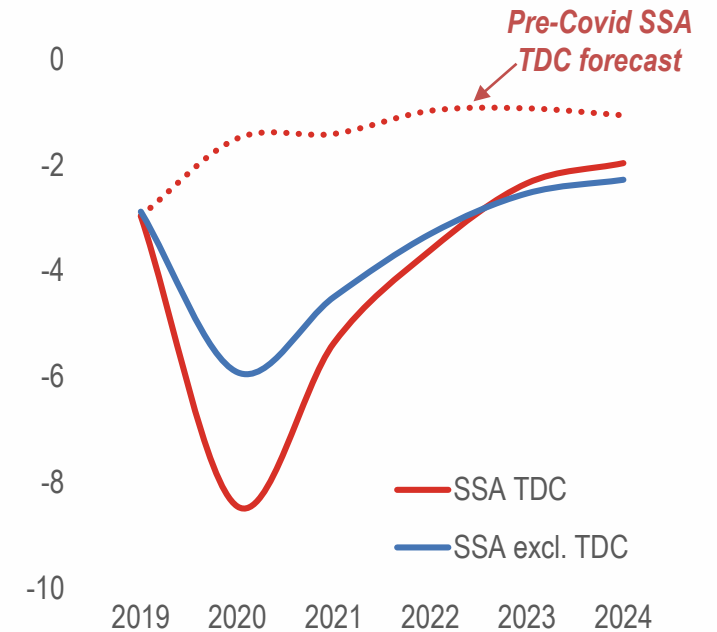
Current Account Balances

(Percent of GDP, mean)



Fiscal Deficits

(Percent of GDP, mean)



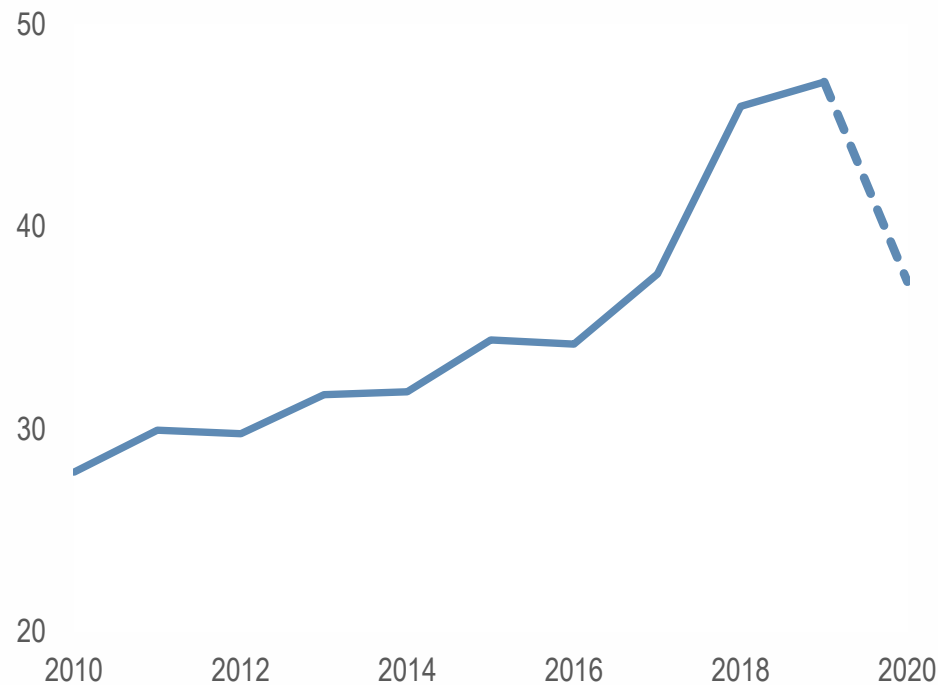
Sources: IMF, World Economic Outlook, IMF staff survey, and IMF staff calculations.

Notes: For COVID and GFC, sample of countries is Cabo Verde, The Gambia, Mauritius, São Tomé and Príncipe, and Seychelles. For SARS, sample of countries includes, Hong Kong, China, Singapore and Taiwan. "t-1" for COVID is 2019, for GFC is 2008, and for SARS is 2002. TDC includes Comoros in addition to the countries above.

Remittances and capital inflows also affected

Remittance Flows to SSA

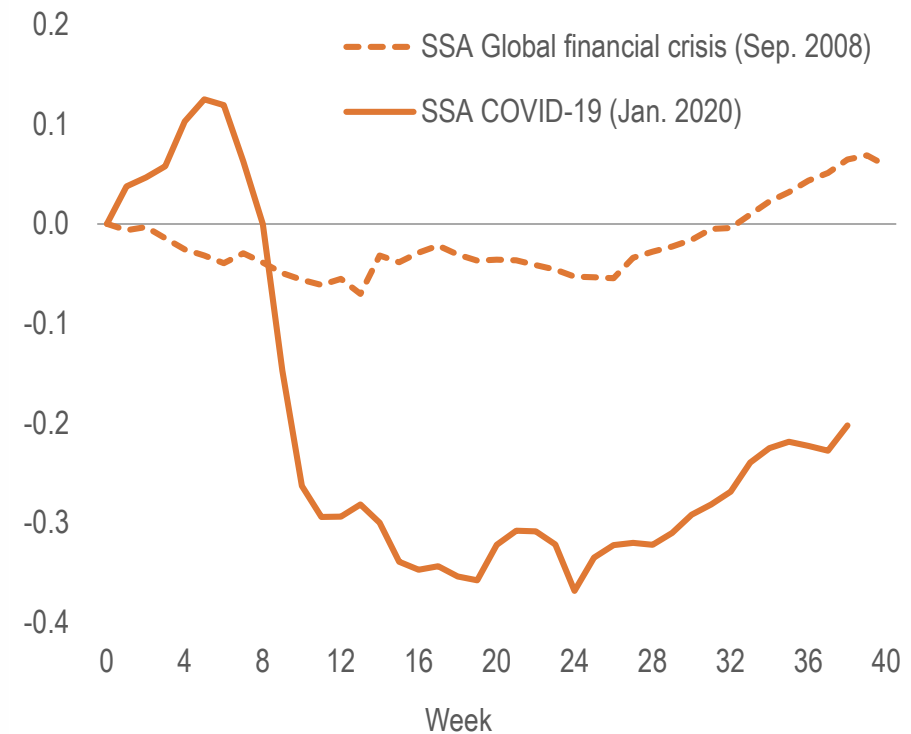
(Billion US\$)



Sources: World Bank Bilateral Remittance Matrix and IMF staff calculations.

Cumulative Portfolio Flows in SSA Frontier Markets

(Percent of GDP since the start of each episode)

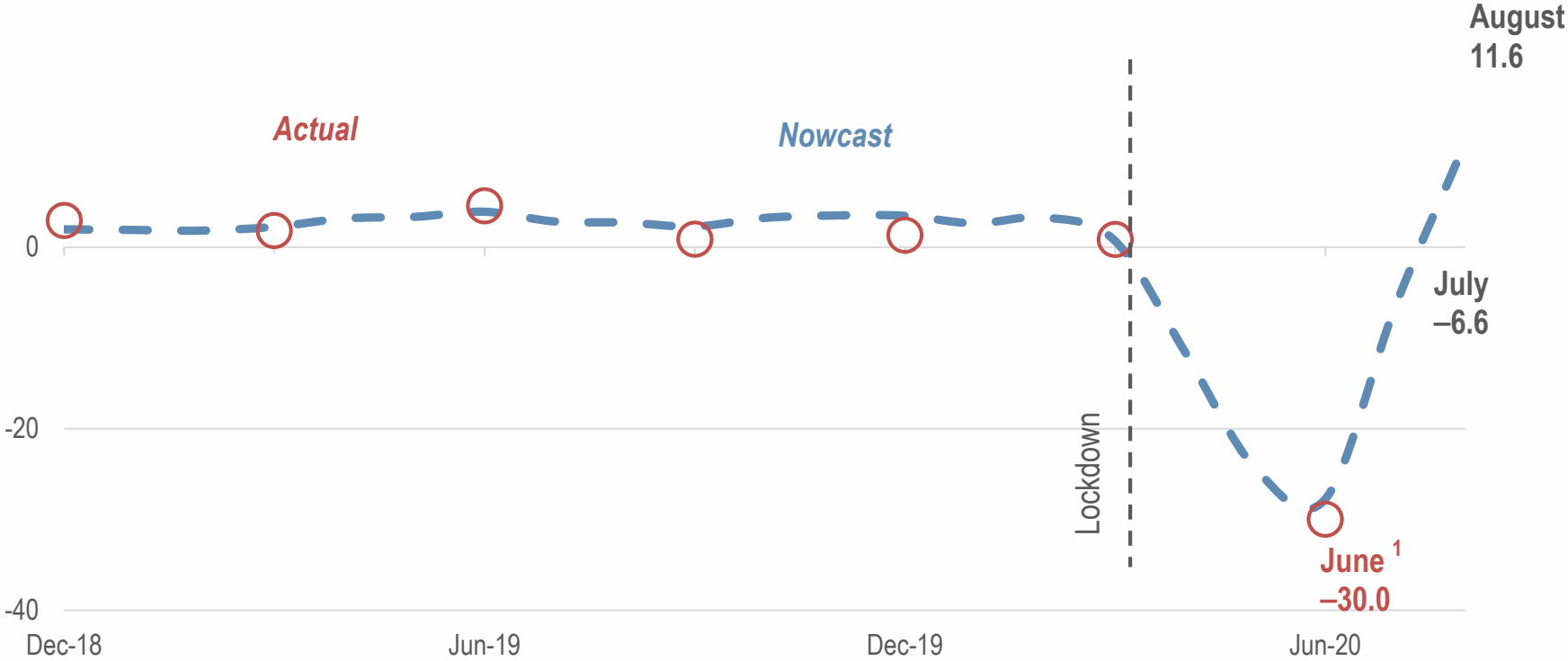


Sources: Haver Analytics, IMF, World Economic Outlook, and IMF staff calculations.

Output seems to have bottomed out...

Real GDP Growth, Data and Nowcasts, 2018-20

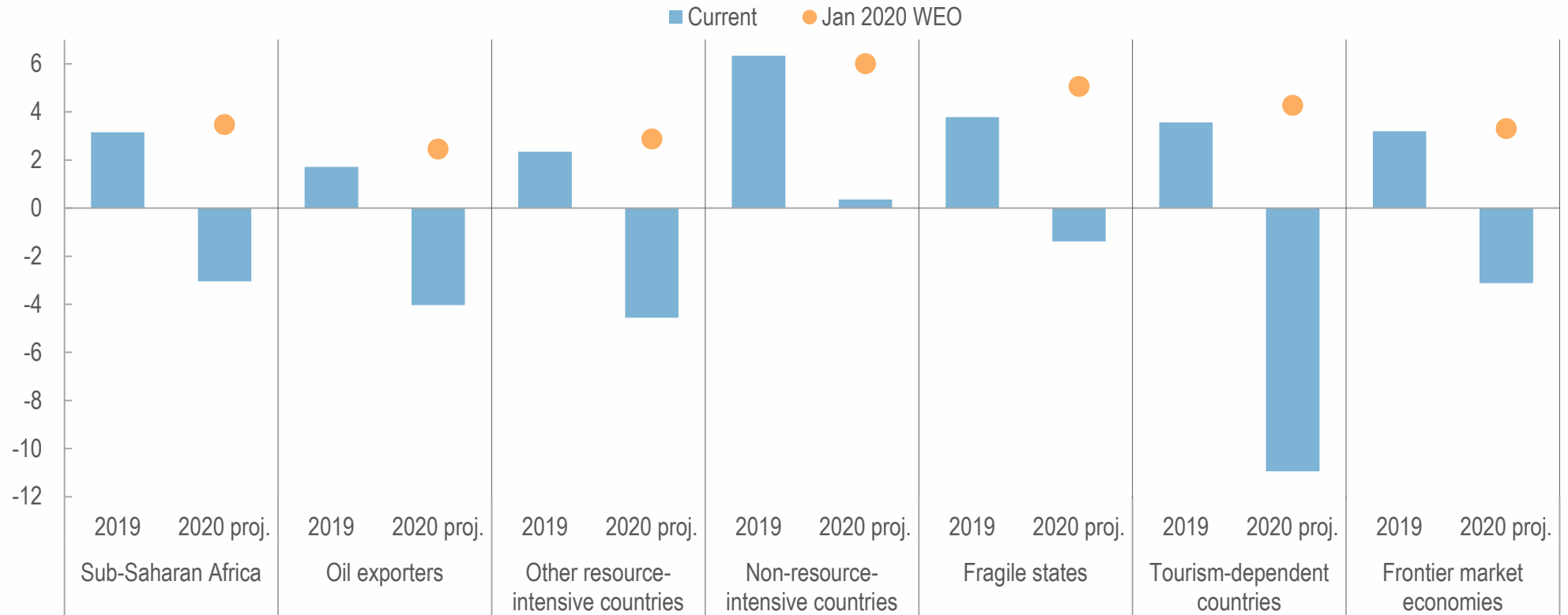
(Percent, rolling q-on-q annualized)



¹Estimate
Sources: Haver Analytics, national authorities, and IMF staff calculations.

Output will contract by 3.0 percent in 2020

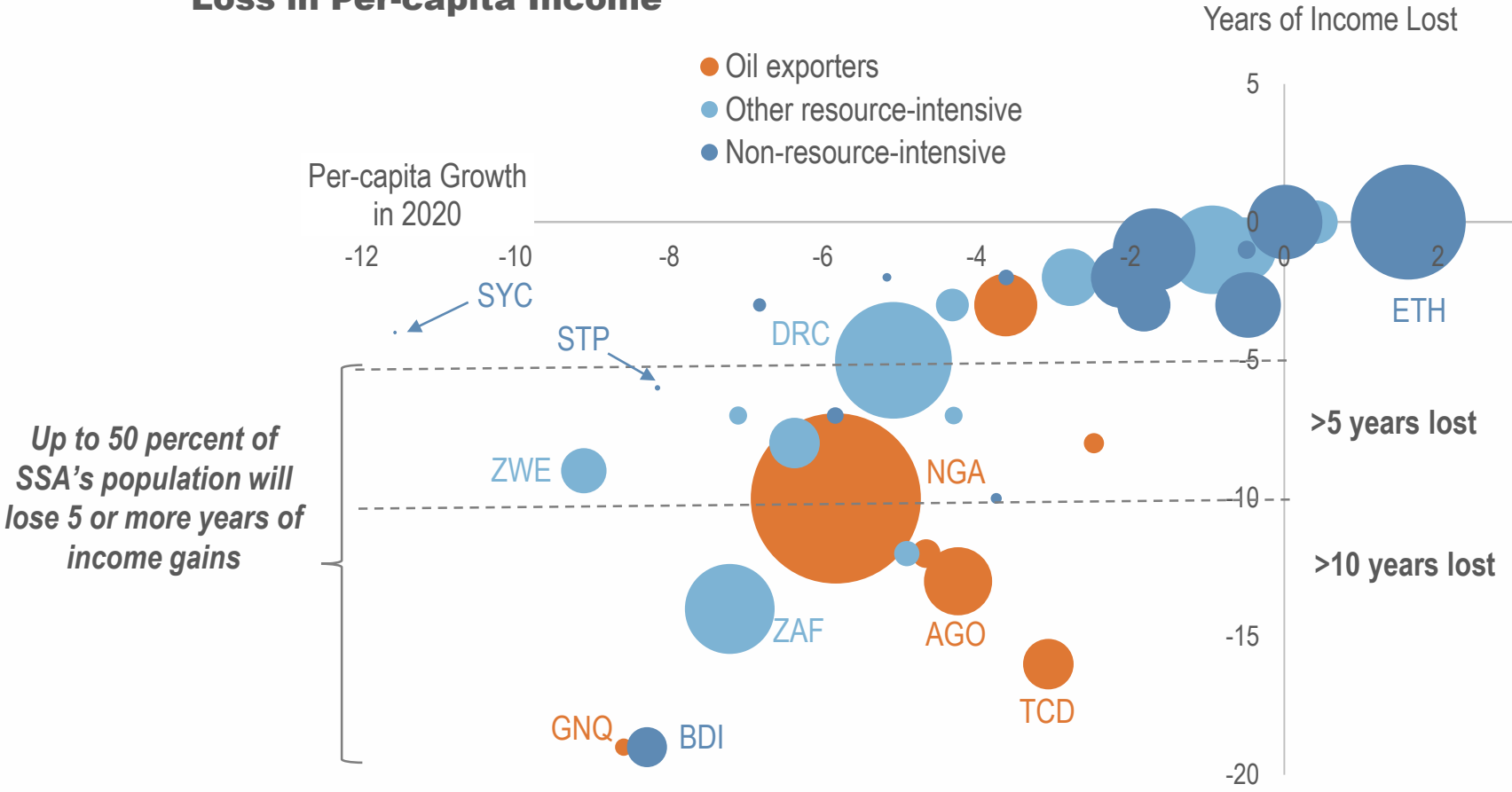
Real GDP Growth (Percent)



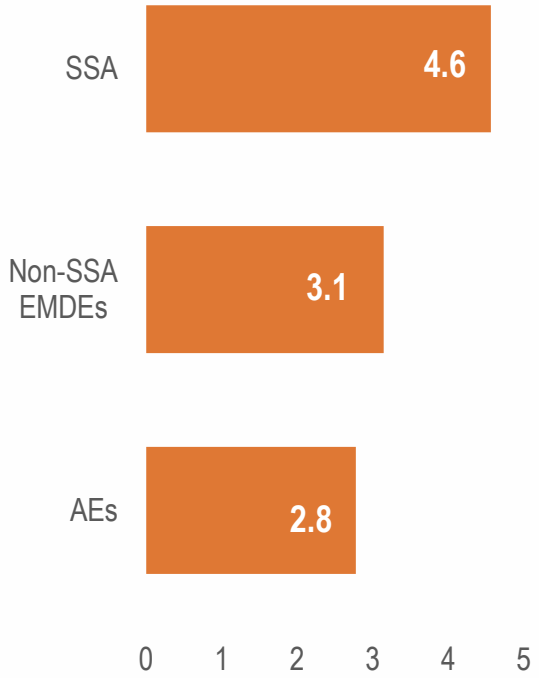
Sources: IMF, World Economic Outlook and IMF staff calculations.

The crisis is setting back hard-won gains in income

Loss in Per-capita Income



Fall in Cumulative GDP Per-capita Growth, 2020–21 (Percent)



Sources: IMF, World Economic Outlook and IMF staff calculations.
 Note: Each circle is proportional to the size of the population. The x-axis represents the number of years of per-capita income that was wiped out in 2020.

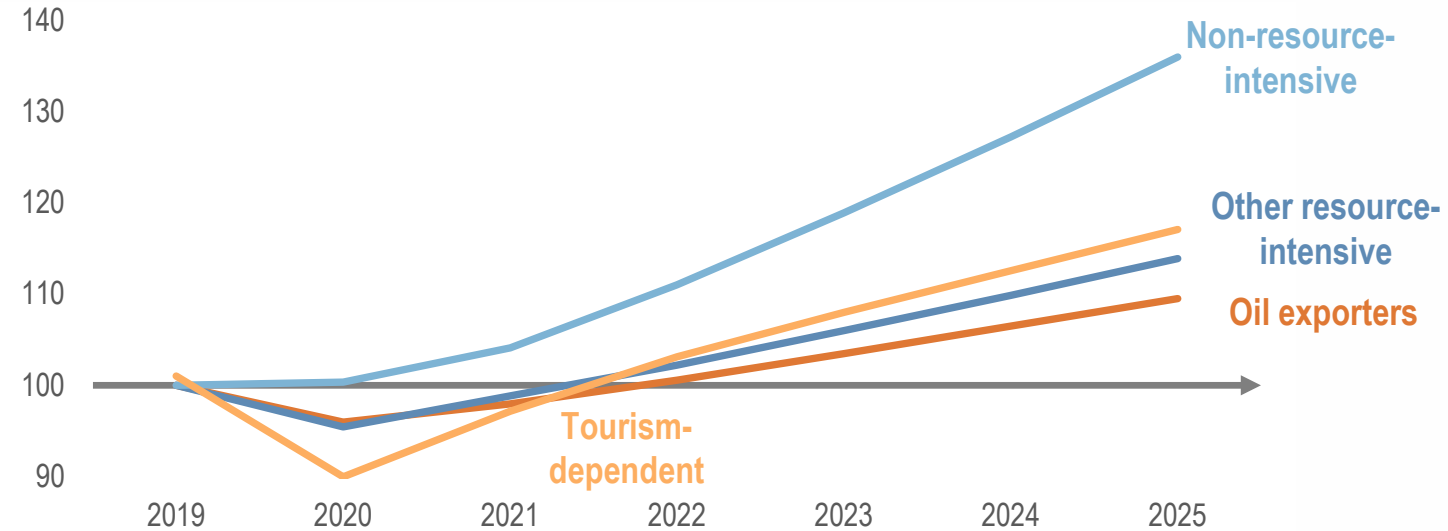
Outlook and Policies

Prolonged and uneven recovery to start in 2021...

Baseline Scenario

Real GDP

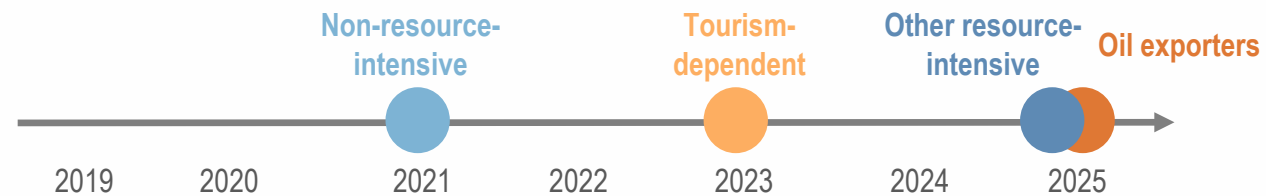
(Index, 2019=100)



Downside Scenario

The Length of the Recovery

(Time at which GDP returns to 2019 level)

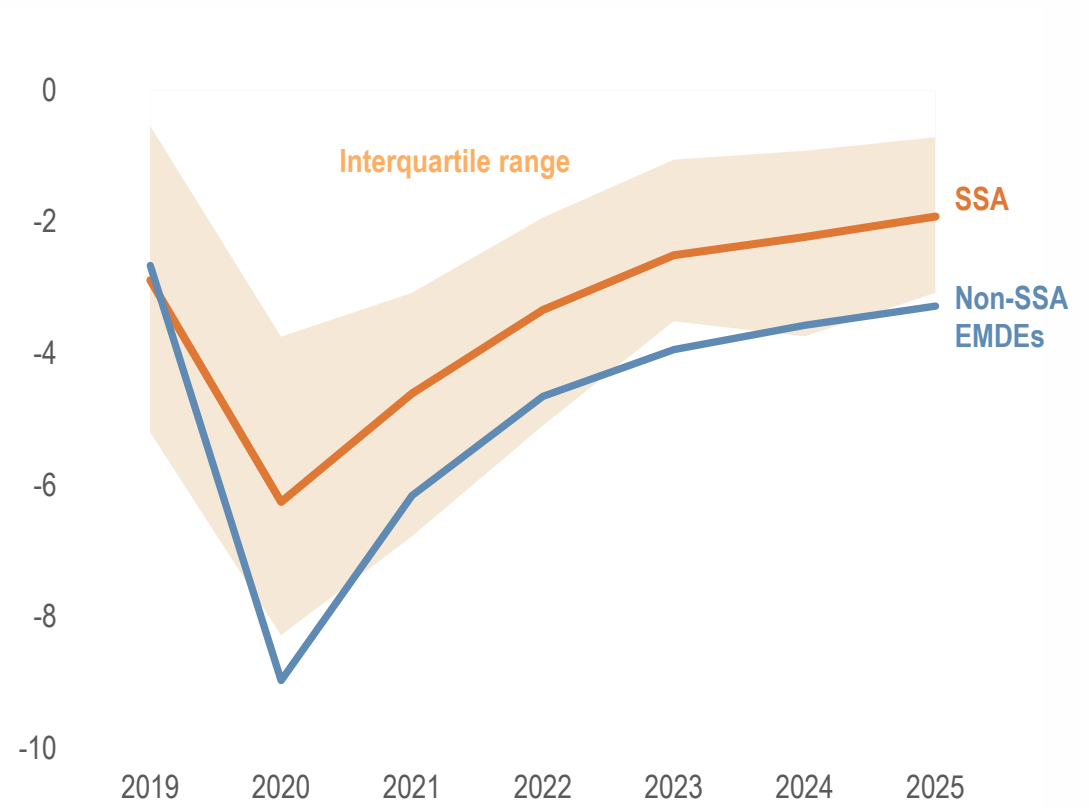


Sources: IMF, World Economic Outlook and IMF staff calculations.

Consolidation will weigh on outlook

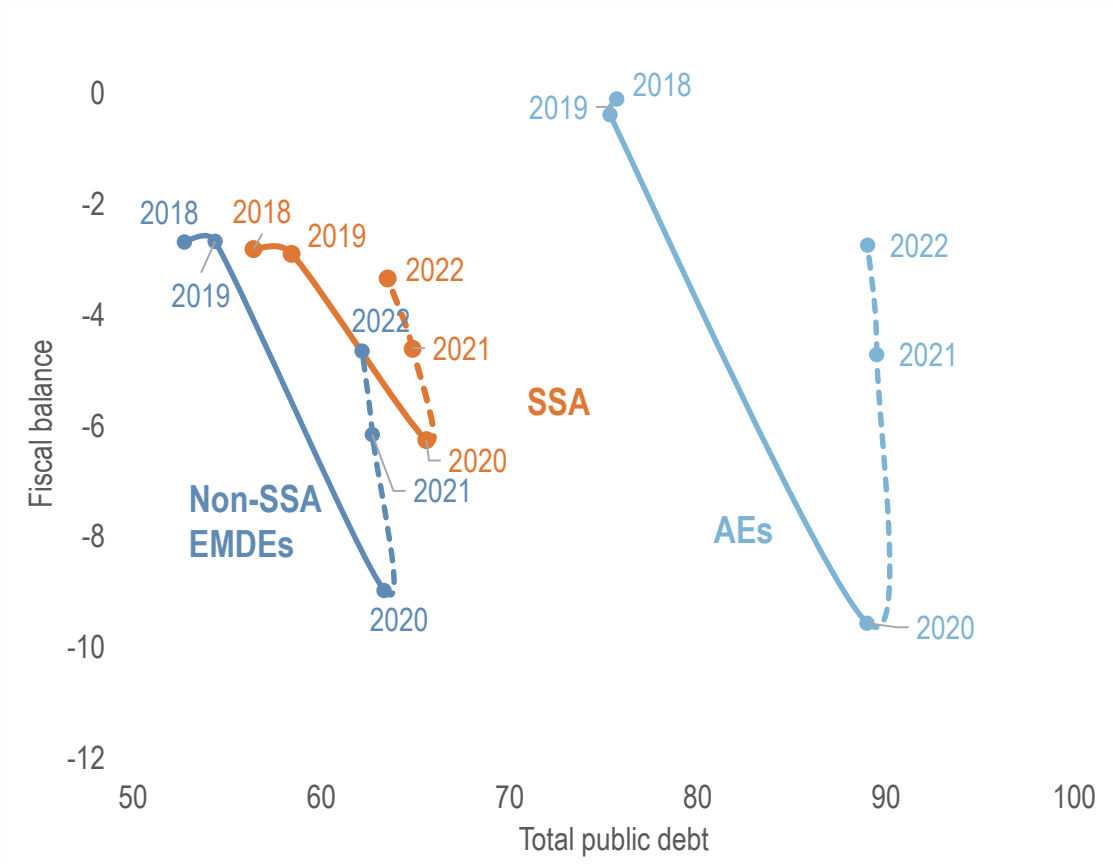
Fiscal Deficits

(Percent of GDP, mean)



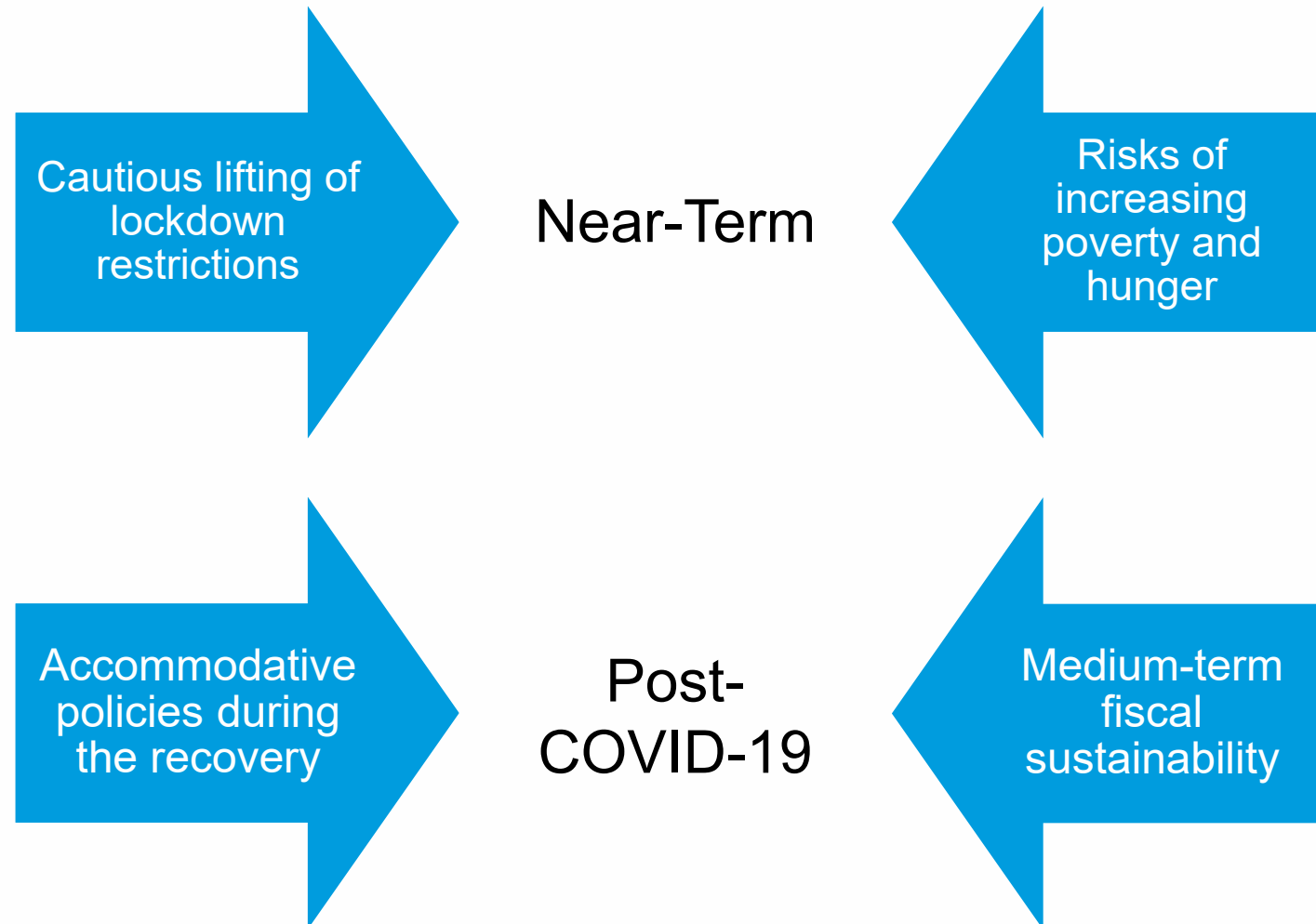
Fiscal Balance and Public Debt, 2018–22

(Percent of GDP, mean)



Sources: IMF, World Economic Outlook and IMF staff calculations.

Near-term and post-Covid-19 policy trade-offs



Shape of recovery hinges on transformative reforms...

These reforms include:

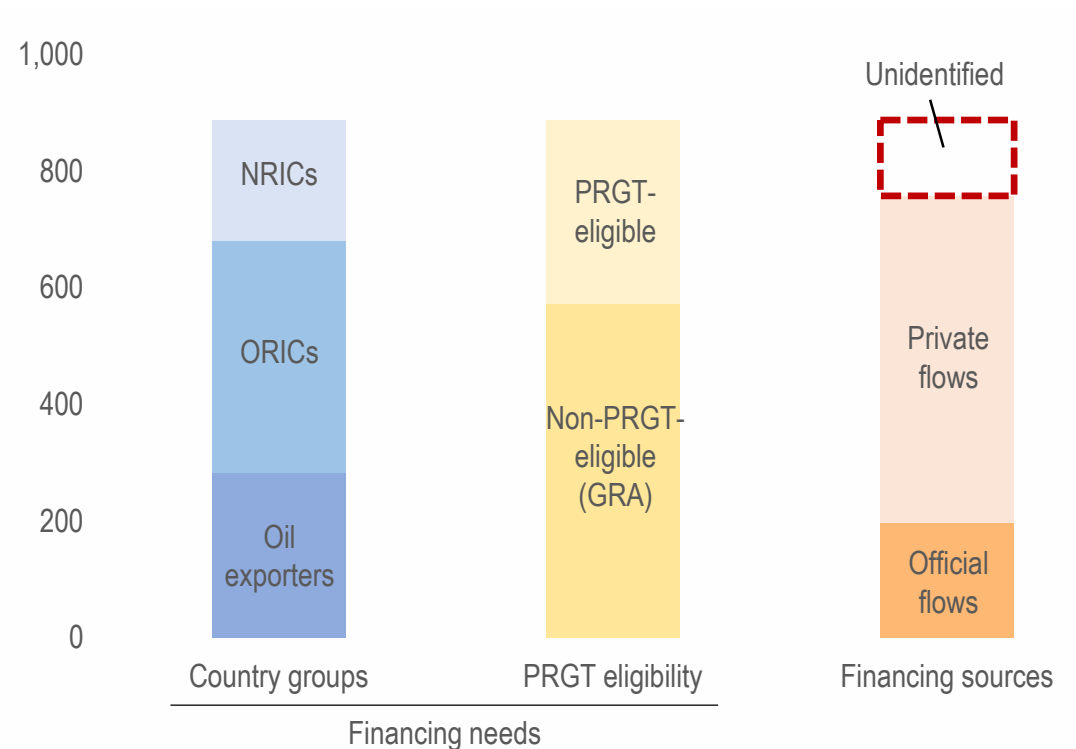
- *Domestic revenue mobilization;*
- A strengthened focus on *social protection* to reverse the COVID-19 induced increase in poverty;
- Policies to promote connectivity and *digitalization;*
- Enhancing *transparency*, improving *governance*, eliminating corruption.

...as well as significant external financing

- The region's gross financing needs are projected at approximately **US\$900 billion** for 2020–23, of which just over **50 percent** are external debt amortization.
- The DSSI has contributed **0.3 percent** of the financing needs thus far.
- A substantial financing gap remains, estimated between **US\$130–410 billion** for 2020–23.

External Financing Needs and Sources, 2020–23

(Billion US\$)



Source: IMF staff calculations.

Note: This scenario (optimistically) assumes private financial flows revert close to pre-crisis levels. NRICs = non-resource-intensive countries; ORICs = other resource-intensive countries.

What will be the role of the IMF in the recovery?

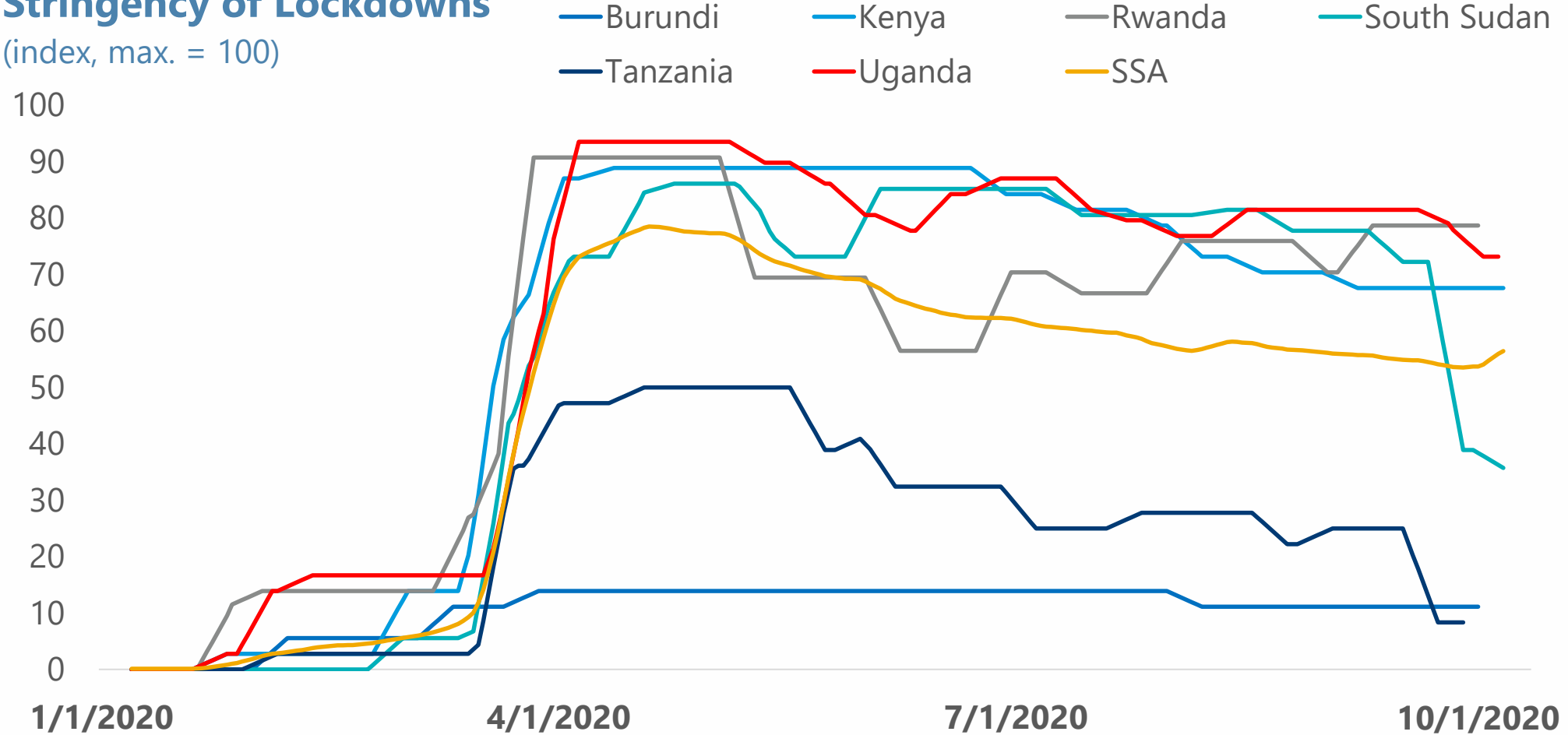
- Mobilize resources (CCRT, DSSI)
- International cooperation (debt architecture, international tax cooperation...)
- Finance and support design and implementation of home-grown recovery programs
- Capacity building through technical assistance, training and surveillance

Uganda

Strict and protracted containment measures...

Stringency of Lockdowns

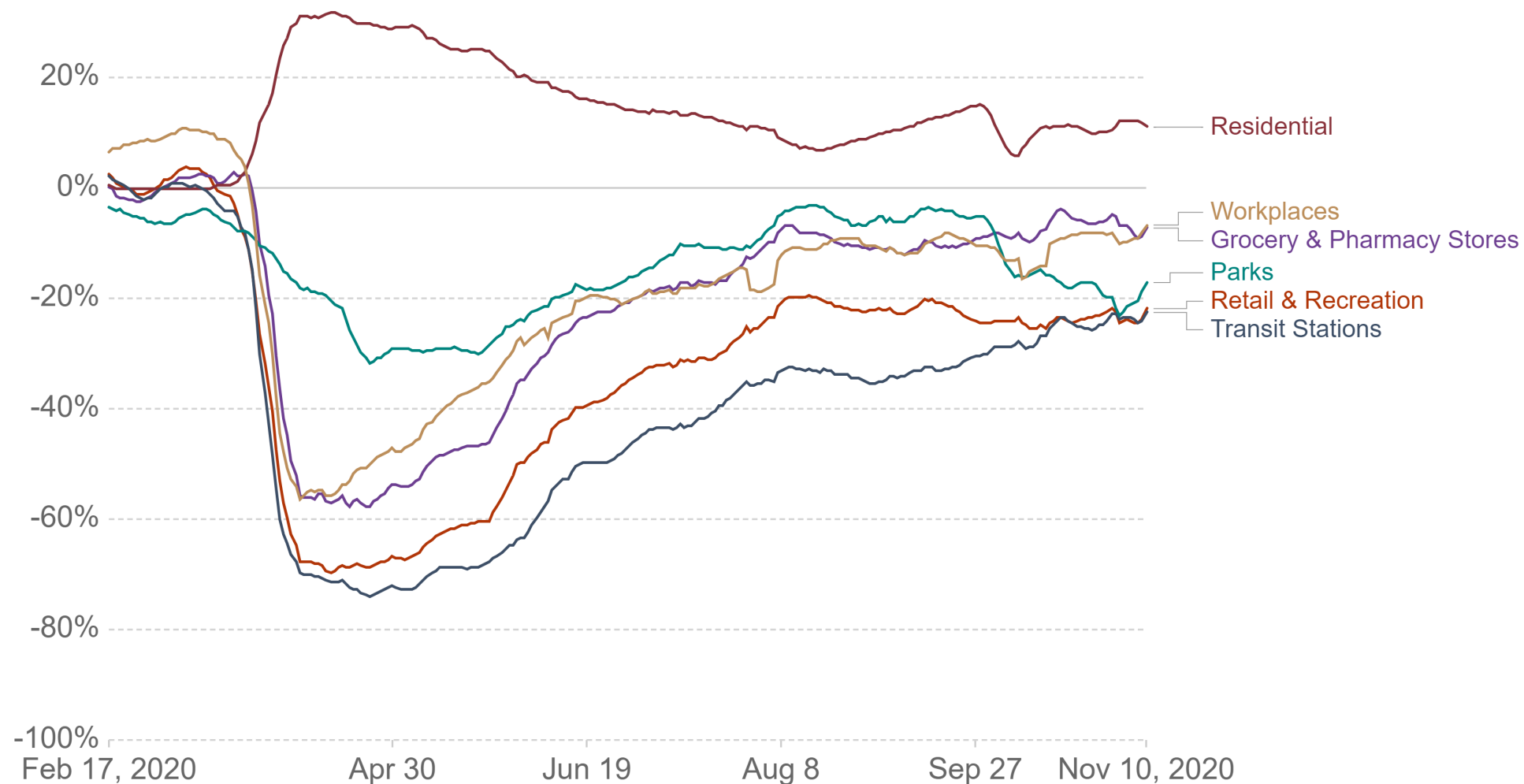
(index, max. = 100)



Source: Oxford COVID-19 Government Response Tracker; and IMF staff calculations.

How did the number of visitors change since the beginning of the pandemic?, Uganda

The data shows how visitors to (or time spent in) categorized places change compared to baseline days – the median value from the 5-week period from January 3rd to February 6th 2020. This index is smoothed to the rolling 7-day average.

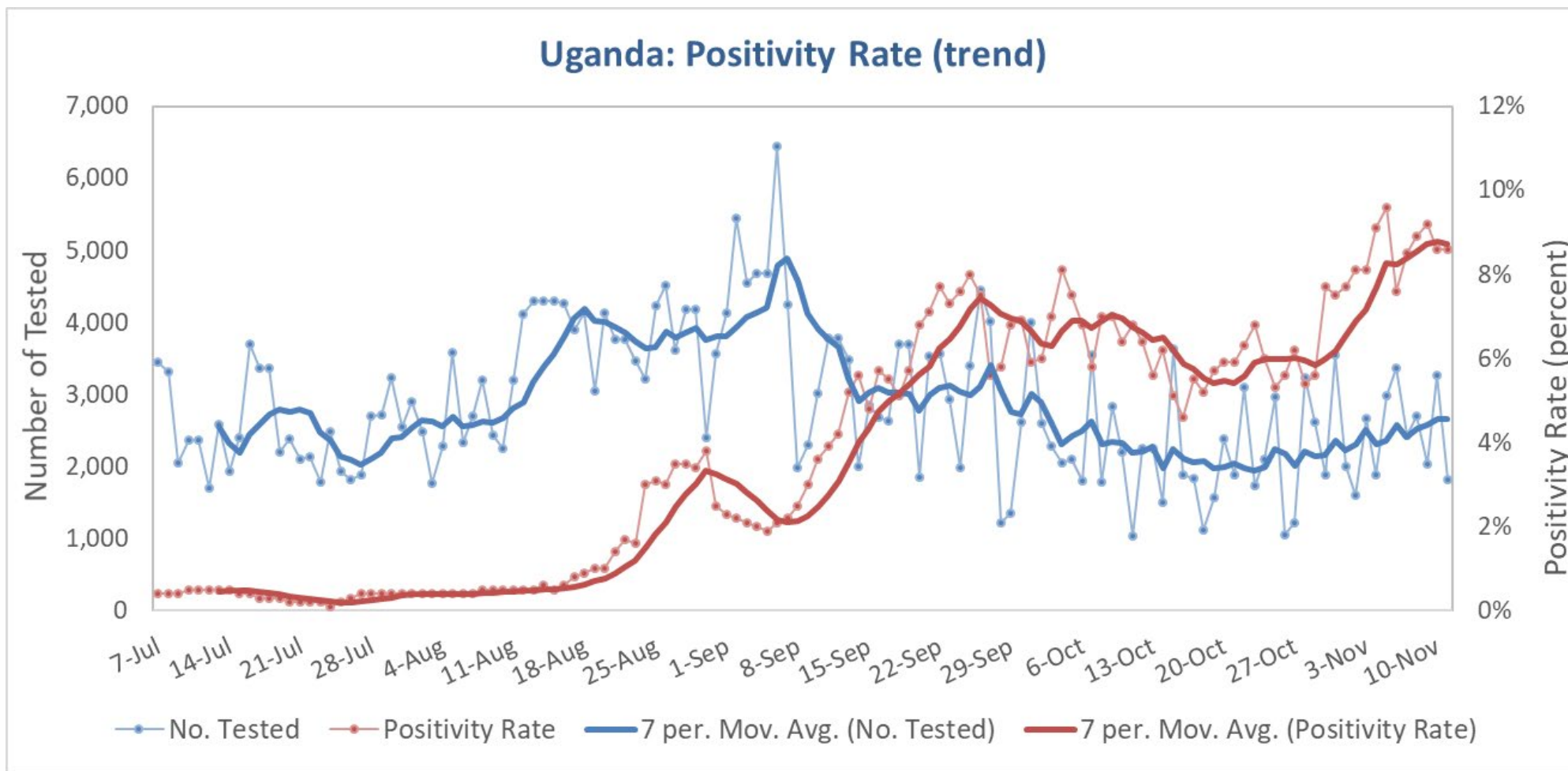


Source: Google COVID-19 Community Mobility Trends – Last updated 13 November, 17:30 (London time)

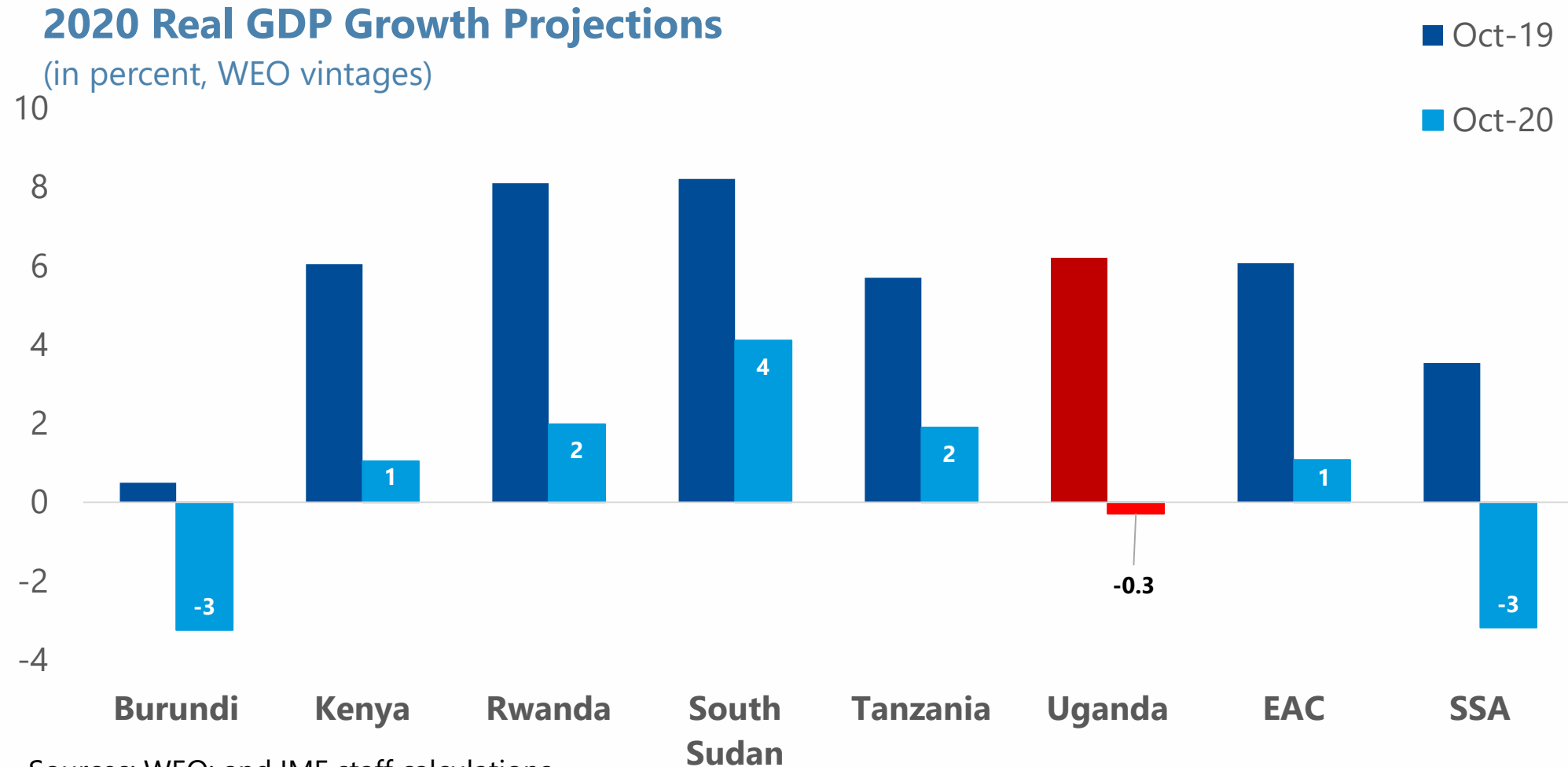
Note: It's not recommended to compare levels across countries; local differences in categories could be misleading.

OurWorldInData.org/coronavirus • CC BY

Uganda's positivity trend is worsening

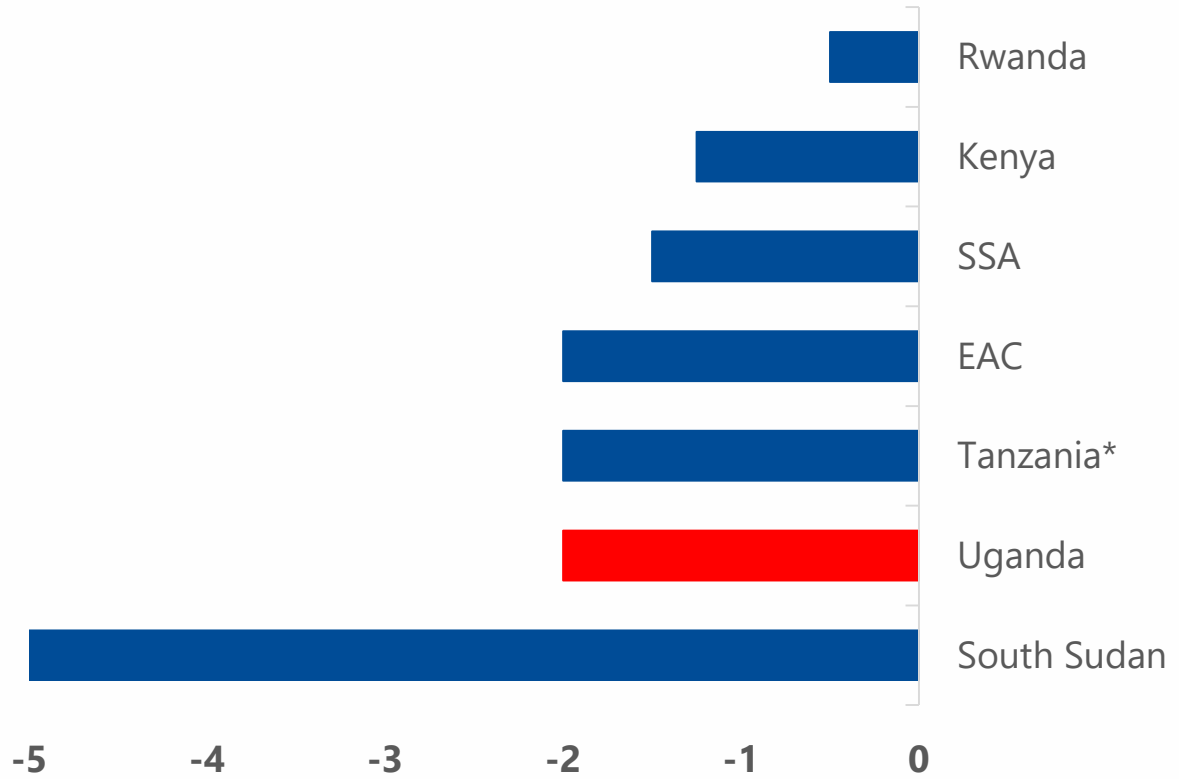


...growth has been significantly affected in the short term...



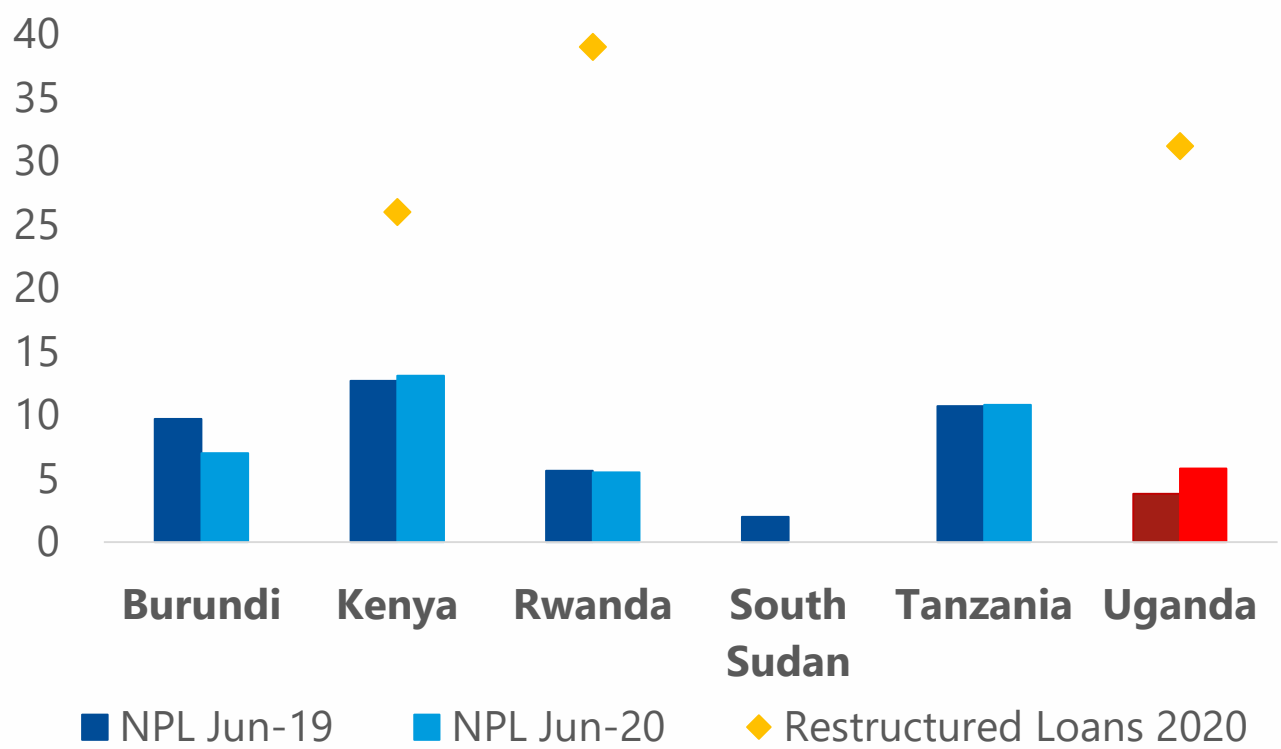
Shocks have been accommodated by monetary policy easing

EAC Policy Rate Changes since COVID-19 Outbreak
(in percentage points; SSA and EAC median rates)



*Tanzania reflects changes to the Discount Rate.
Sources: Haver Analytics; IFS; and IMF staff calculations.

EAC Non-Performing and Restructured Loans
(in percent of total loans)

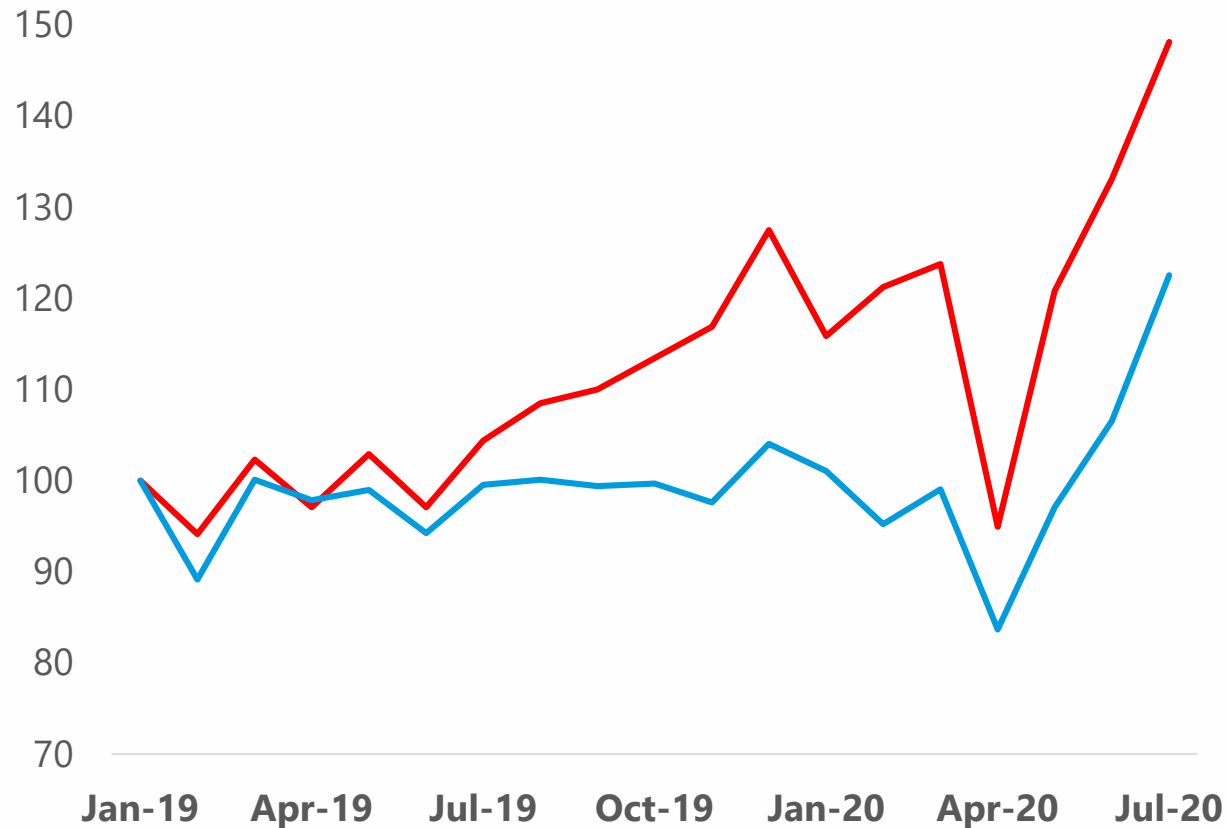


*June-20 data unavailable for South Sudan.
Sources: FSI database; and IMF staff calculations.

...and measures to support digitalization...

Mobile Money Transactions

(index, Jan-19 = 100)



Source: BoU; CBK; and IMF staff calculations.

Uganda



- 18,000 drivers and over 1 million customers subscribed
- Targeting 800 vendors and 50,000 daily customers during COVID-19

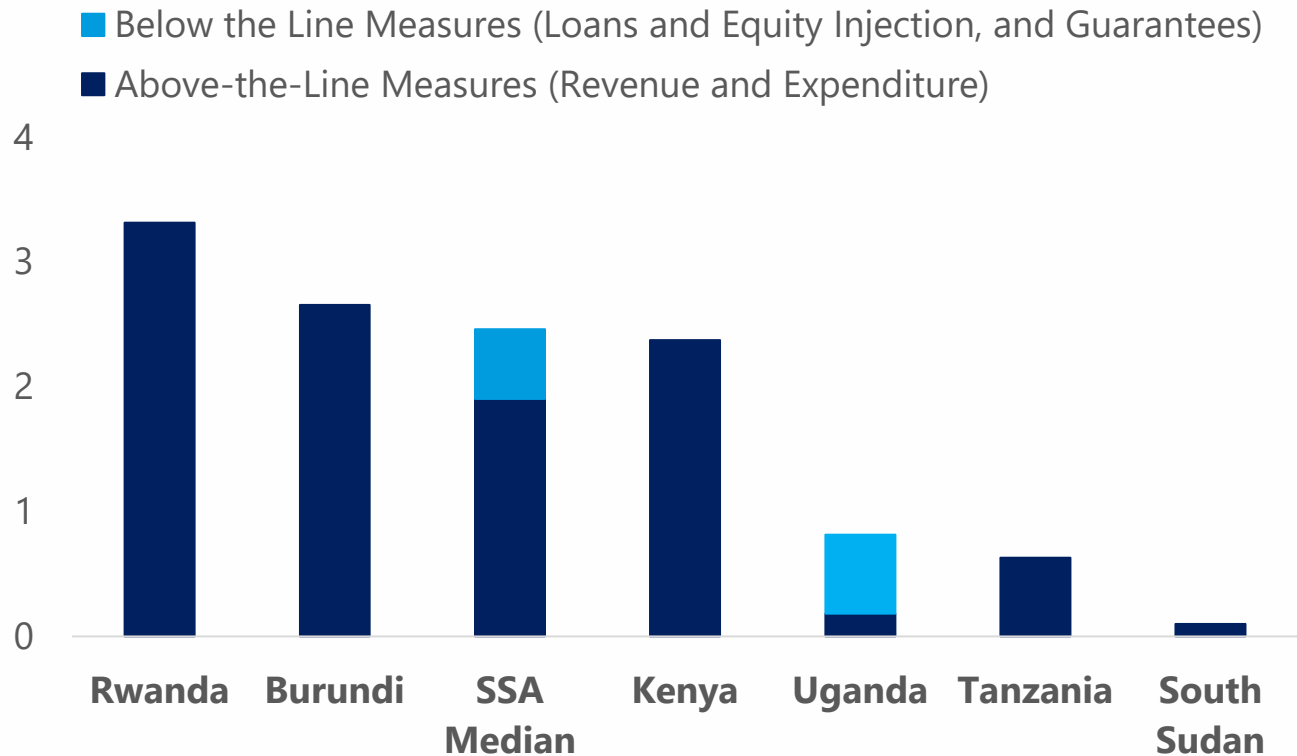
UNCDF and SafeBoda, with support from SIDA, launch e-commerce platform for home delivery amid COVID-19

April 29, 2020 | [Kampala, Uganda](#)

...as well as fiscal loosening...

Above-the-Line and Below-the Line Measures

(in percent of GDP)



Sources: FAD, 2020. Fiscal Monitor Database of Country Measures in Response to the COVID-19 Pandemic.

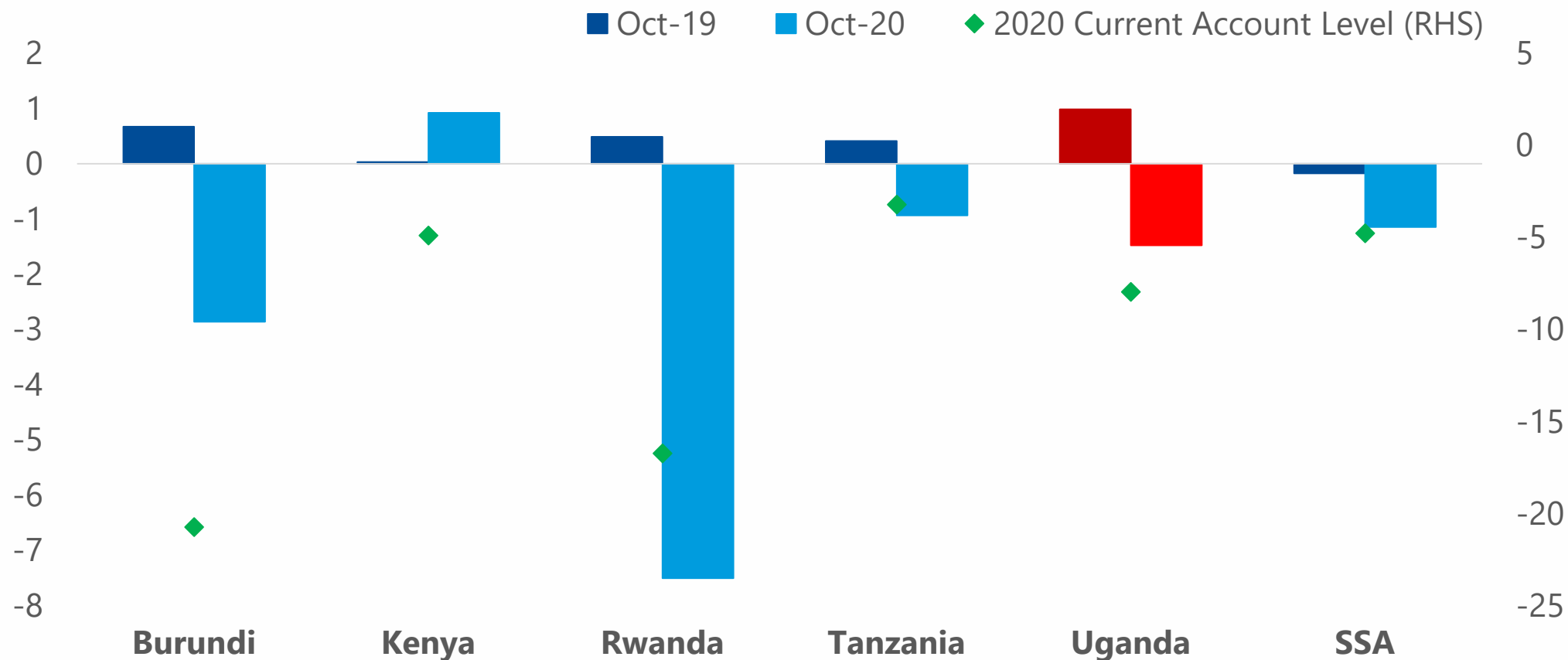
In Uganda:

- Health spending
- Uganda Development Bank
- Food distribution program
- Import substitution
- Expedited arrears repayments

Current account deficits remain high, but deterioration is small

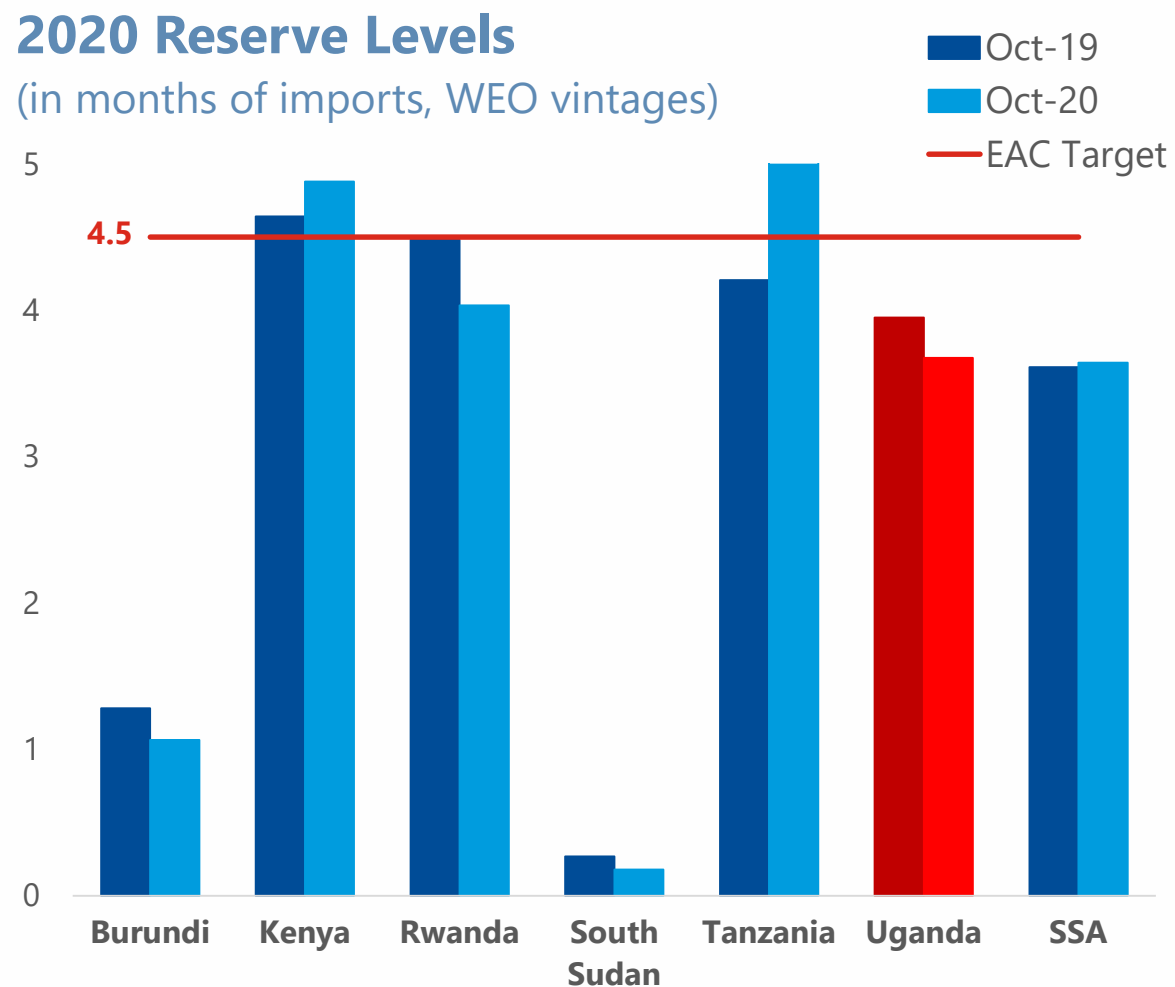
Change in Current Account Balance between 2019 and 2020

(in percent of GDP, WEO vintages)



Sources: WEO; and IMF staff calculations.

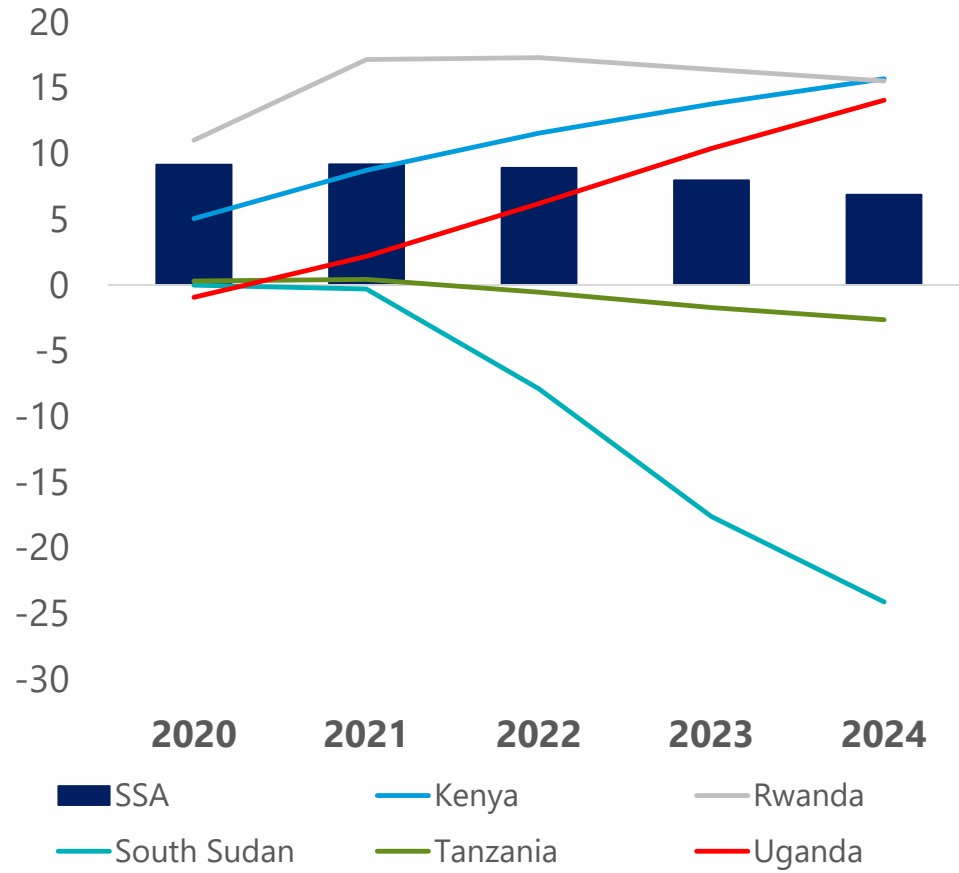
...and international reserves have declined.



Sources: WEO; and IMF staff calculations.

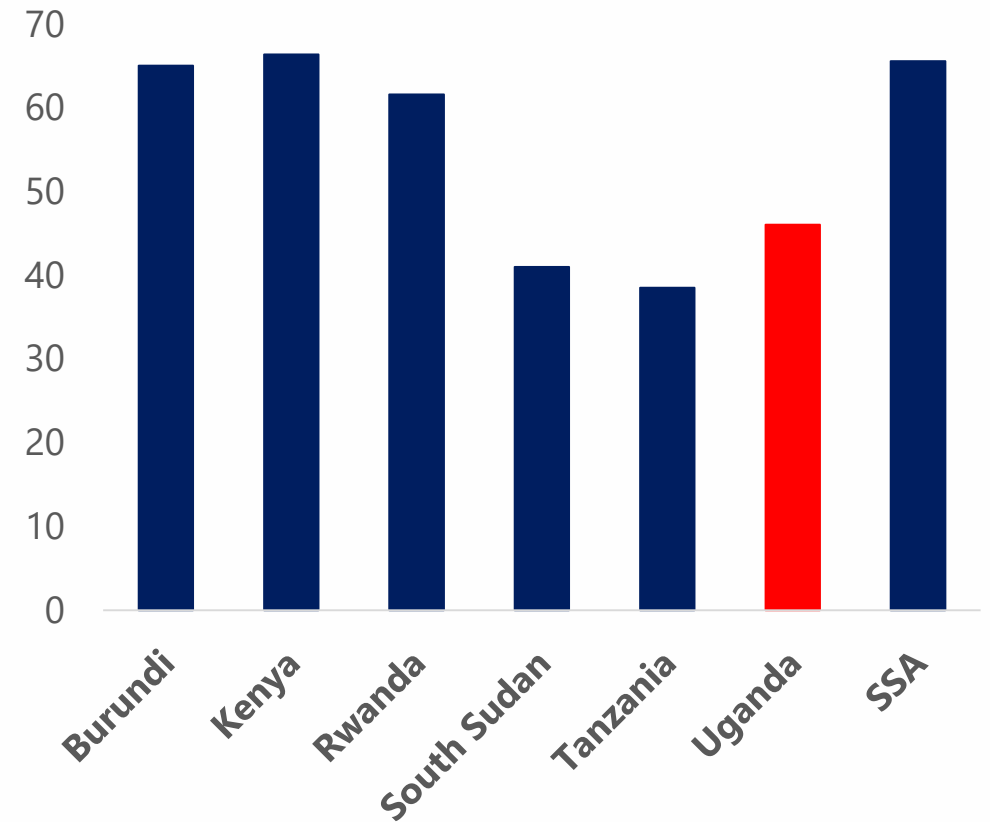
Debt vulnerabilities are increasing

Median Impact of COVID-19 on Public Debt
(in percent of GDP, WEO Oct-19 vs WEO Oct-20)



Sources: WEO; and IMF staff calculations.

2020 Debt Levels: EAC
(in percent of GDP)



Sources: WEO; and IMF staff calculations.

	Near-Term Policies	Post-COVID 19
Monetary Policy	<ul style="list-style-type: none"> • Maintain accommodative policy, conditional on inflation outlook 	<ul style="list-style-type: none"> • Maintain accommodative policy as long as output gap is negative, conditional on inflation outlook
Financial Policy	<ul style="list-style-type: none"> • Consider the extension of crisis measures (e.g., loan restructuring, but targeted and temporary) • Ensure the monitoring of and proper provisioning behind restructured loans 	<ul style="list-style-type: none"> • Unwind crisis measures • Assess the need to provide debt relief for firms/households and to enhance the capital position of banks
External Policy	<ul style="list-style-type: none"> • Allow exchange rate flexibility; use of reserves 	<ul style="list-style-type: none"> • Rebuild reserves

	Near-Term Policies	Post-COVID 19
Fiscal Policy	<ul style="list-style-type: none"> • Continue spending of health and sustain income and liquidity support for firms and households (“Covid-19 spending”). • Expand coverage of social safety nets • Pursue concessional financing, DSSI 	<ul style="list-style-type: none"> • Unwind crisis-specific lifelines gradually • Maintain accommodative stance subject to fiscal space • Strengthen social safety nets • Pursue fiscal sustainability
Structural Reforms	<ul style="list-style-type: none"> • DRMS • Expenditure efficiency, PIM, PFM • Governance (Covid-19 spending tracking, AML, EITI) • Financial inclusion • Digitalization • Climate change mitigation • Trade integration 	

Growing commitments to better governance

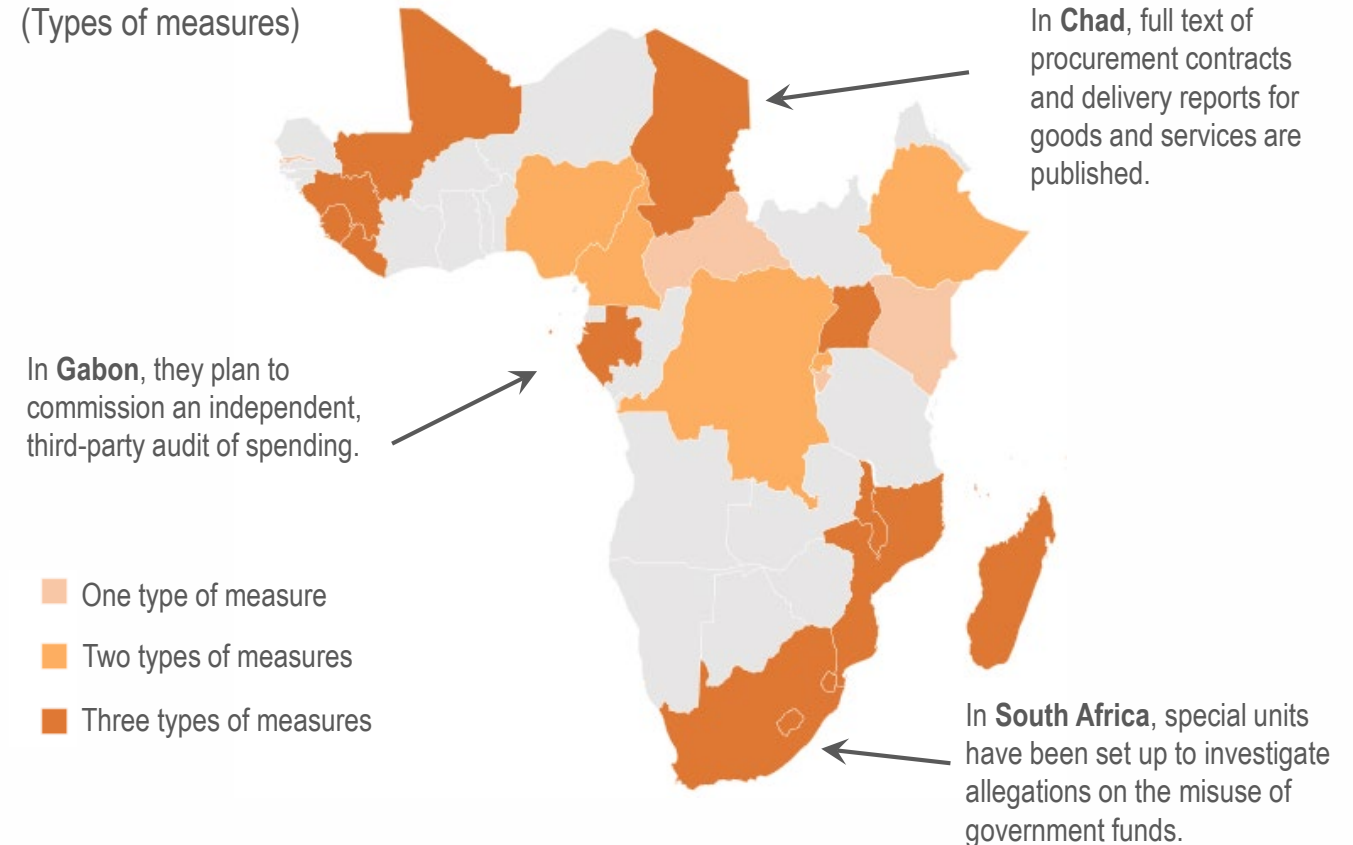
Many countries are putting in place additional enhanced governance measures to track COVID-19 related spending:

- Procurement publication;
- Publication of ex-post delivery reports; and
- Targeted audits of spending.

Others have authorized special units to investigate allegations on the misuse of government funds.

Additional Commitments to Governance Measures under Emergency Financing

(Types of measures)



Source: IMF staff compilation.

Note: The type of measures comprise of: (i) procurement publication; (ii) publication of ex-post delivery reports; and (iii) targeted audits of spending.

Key messages

- The *recovery* ahead remains difficult and *risks* are tilted to the downside.
- *Protecting lives and livelihoods* remains a priority...
- ...but *debt* must be brought back to sustainable levels without jeopardizing *longer-term growth*...
- ...and *transformative reforms* are urgently needed to promote a greener, inclusive, job-rich, and resilient recovery...
- ...which will be difficult without *external support*.

Thank you!



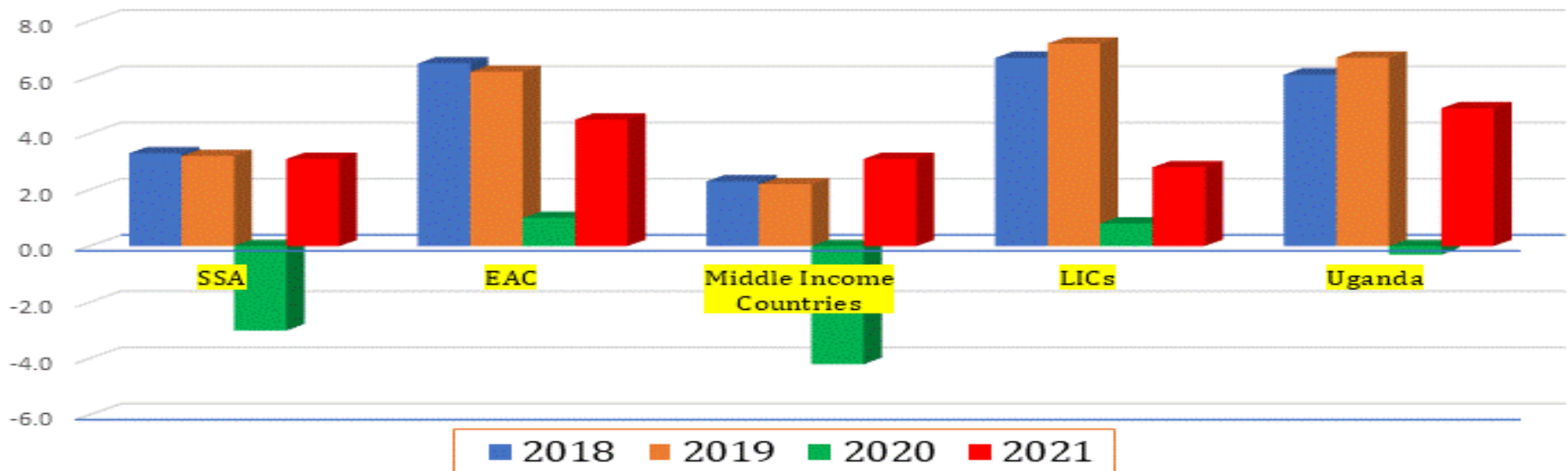
A Difficult Road to Recovery for SSA



SSA Economic Growth prospects

- The Covid-19 pandemic has revealed our system's exposure to risks and is challenging us to rethink and redesign our current economic model.
- The REO outlook for SSA projects a contraction of -3.0% in 2020 and a recovery to 3.1% in 2021.
- Covid-19 has interacted with other major trends of geopolitics, climate change and technology.

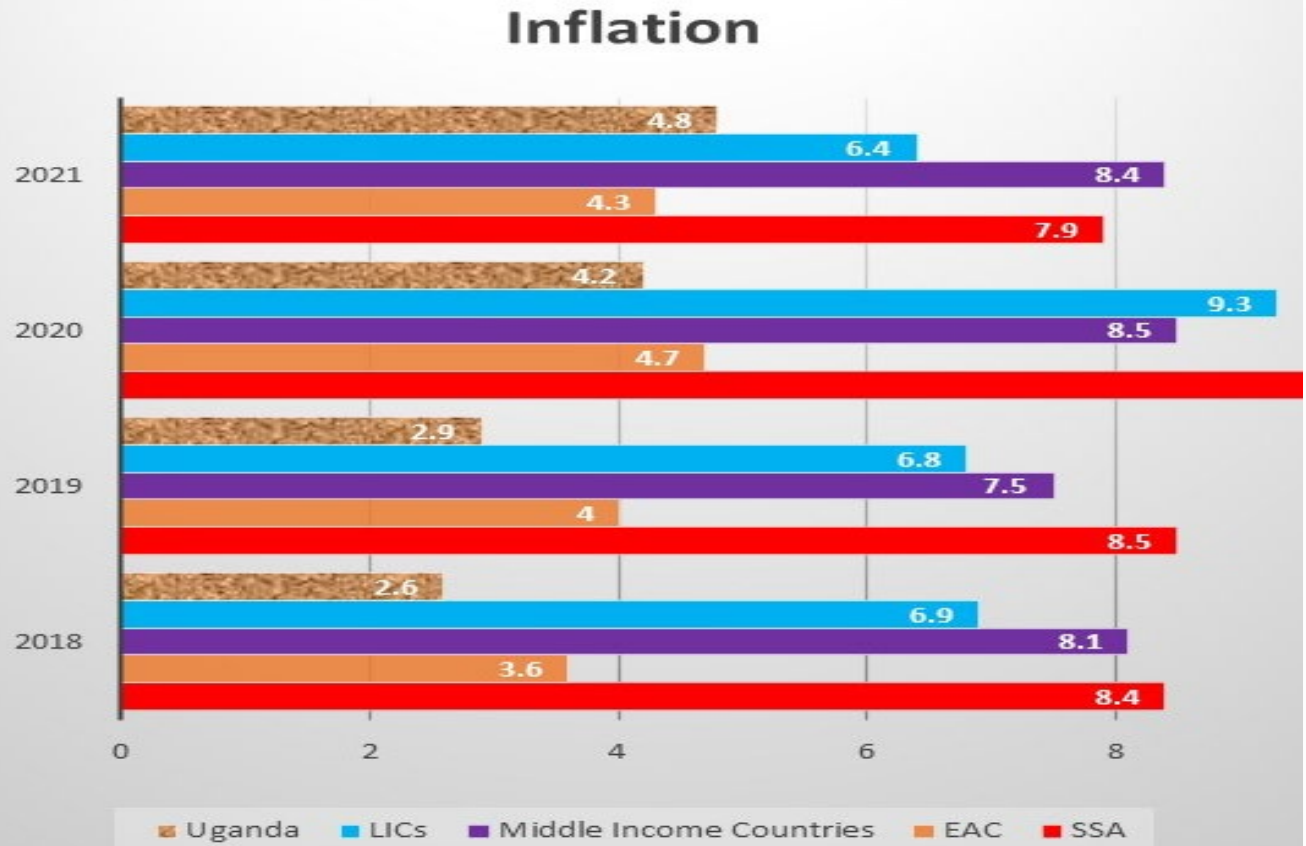
Real GDP growth



- *Is the IMF overly optimistic about economic recovery in SSA countries?*
- Key domestic risks include a worsening of preexisting socioeconomic inequities and political instability, which would undermine confidence and hinder effective policymaking.
- *Known unknowns: Covid-19 is still with us and its impact on the economies is still evolving, and other shocks. e.g. weather related or natural calamities*

Inflation

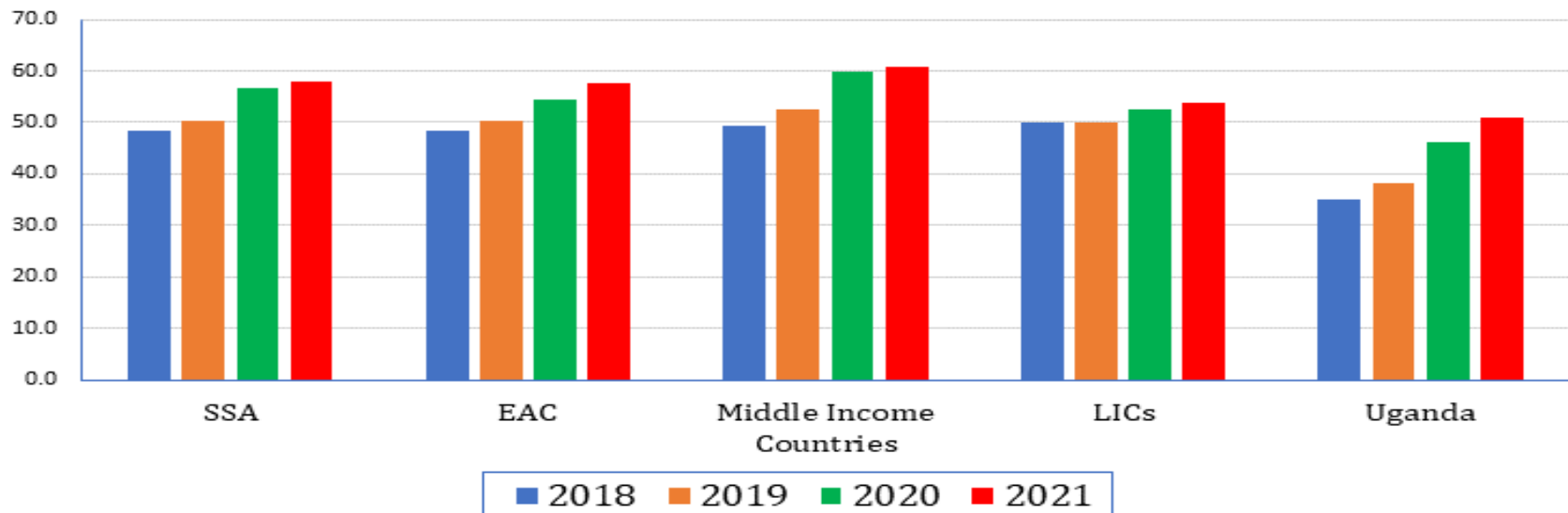
- Inflation seem to have been a challenge in some countries even before Covid-19.
- Disinflation pressures could be counteracted by a commodity prices rebound.



Public debt versus fiscal consolidation

- Rising public debt in many economies previously thought to be strong performers. The debt burden bound to worsen with countries borrowing more to tackle the pandemic
- Zambia is on the brink of becoming the first African country to default following the outbreak of the Covid-19 pandemic.
- Low near-term growth, adding to social tensions, increasing risk premiums, and limited ability to pursue productivity-boosting reforms, could leave countries trapped on a path of low growth and high debt.
- Dilemma, incurring large deficits now for the necessary investments in people, communities, and businesses would increase the chance for a strong, widely shared recovery and thus contribute to more rapidly shrinking deficits in the future than would be the case without such actions.
- On current trends, significant financing gaps are likely to prevail, and without significant additional assistance many countries will struggle to simply maintain macroeconomic stability while also meeting the basic needs of their population.
- Will the Debt Service Suspension Initiative be of help?

Public debt/GDP (%)



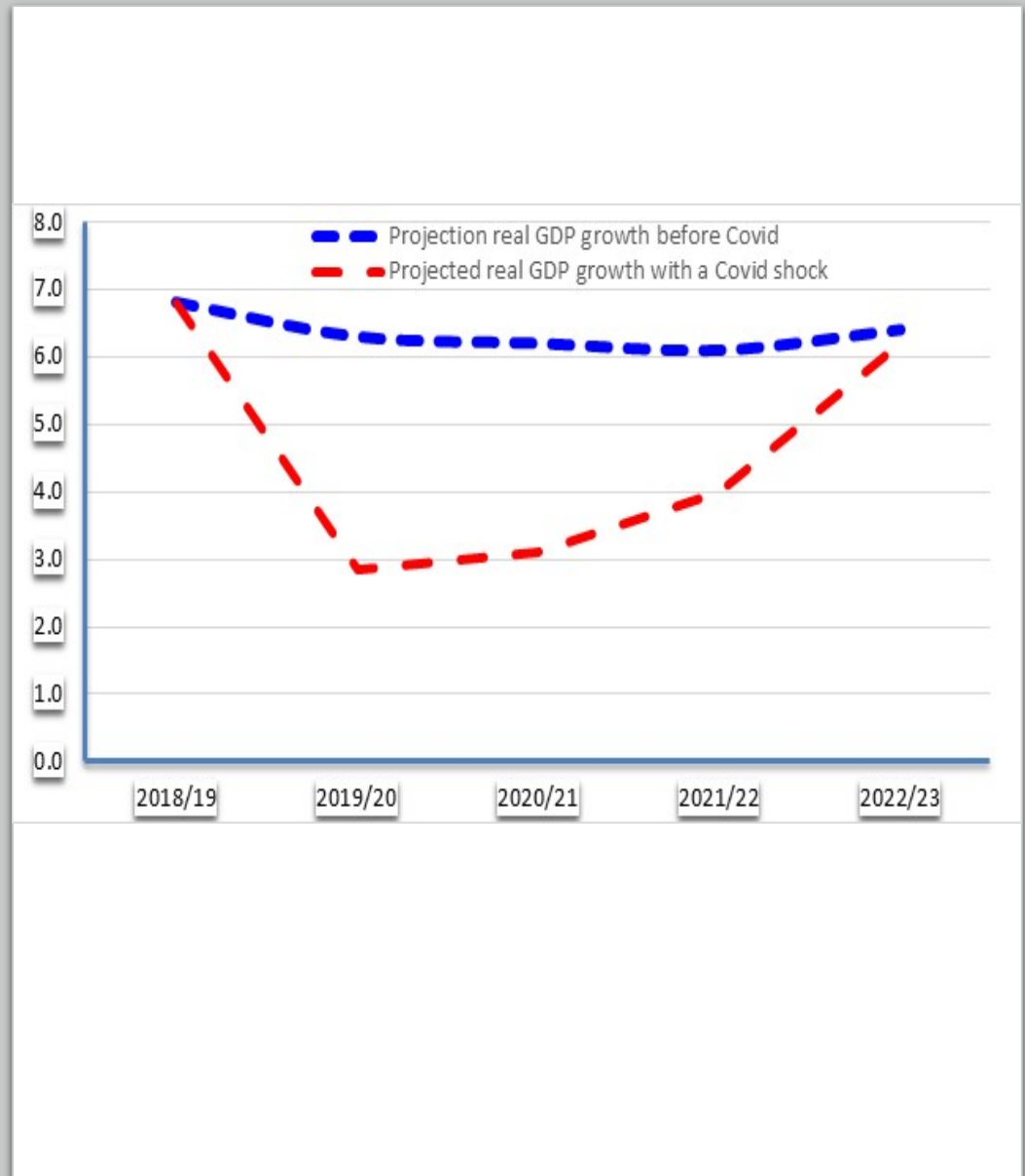
Twin deficits: Fiscal and current account deficits

- *It is essential for governments to continue to provide fiscal, financial and other policy support at the current stage of the recovery but how to finance these interventions!*
- the existence of “fiscal space” has taken center stage in policy discussions yet scaling down expenditure in medium to long term may prove difficult!
- Need for innovative policy mix

<i>Fiscal deficits/GDP (%)</i>	2018	2019	2020	2021
SSA	-3.5	-4.2	-7.6	-5.9
EAC	-4.7	-5.4	-6.1	-6.5
<i>Middle Income Countries</i>	-3.8	-4.9	-8.8	-6.7
LICs	-3.0	-2.6	-4.2	-4.1
<i>Uganda</i>	-2.7	-5.0	-6.6	-6.9
<i>External current account/GDP (%)</i>	2018	2019	2020	2021
SSA	-2.7	-3.6	-4.8	-4.1
EAC	-5.4	-5.2	-5.7	-5.7
<i>Middle Income Countries</i>	-1.3	-2.9	-3.5	-2.7
LICs	-7.0	-6.0	-8.6	-8.7
<i>Uganda</i>	-6.8	-6.5	-8.0	-5.9

Uganda's growth and Covid

- Before the pandemic, growth was projected to average 6.3% for the period 2019/20-2022/23
- The rapid policy reaction to buffer the initial blow to prevented an even larger drop in output.
- **Assuming recovery in second half of 2020, Growth to recover to pre-Covid level**
- **in 2022/23**
 - *Many businesses in the service sectors, such as transport, entertainment and leisure, could become insolvent if demand does not recover, triggering large-scale job losses.*
 - *Rising unemployment is also likely to worsen the risk of poverty and deprivation for millions of informal workers, particularly.*



Uganda's growth and Covid

- Assuming a population growth rate of 3%, in absence of Covid-19, Uganda would have achieved low-middle income status by 2021/22!

Projected GDP per capita (US\$)
Projected GDP per capita (US\$) before Covid



2018/19

2019/20

2020/21

2021/22

2022/23

Uganda's Policy Challenges

- Rekindling the economy with fewer resources poses difficult choices.
 - *Social spending versus infrastructure spending: appropriate balancing*
 - *Coherent and integrated approach that simultaneously addresses both public and economic needs will achieve a sustainable recovery.*
- **Fiscal dominance:** Monetization of fiscal deficits and central bank independence
- **Weak monetary policy transmission mechanisms:** Credit growth likely to remain subdued until economic recovery is stronger- how to break the virtuous cycle.
- **Loan restructuring and financial stability concerns:** Slow economic recovery continues to adversely affect financial condition of households and businesses and their debt service
- Although the banking system is well capitalized, a few banks may experience liquidity and capital shortfalls going forward in an adverse scenario, even with the currently deployed policy measures.
- **Rising nationalism and trade protection:** Is Regional integration still variable?
- **An opportunity for a reset,** e.g. education and health systems

IMPACT OF COVID-19 ON UGANDA'S BUSINESSES

Corti Paul LAKUMA
Research Fellow, EPRC

20TH NOV. 2020

Outline of the presentation

1. Context

2. Effects of measures

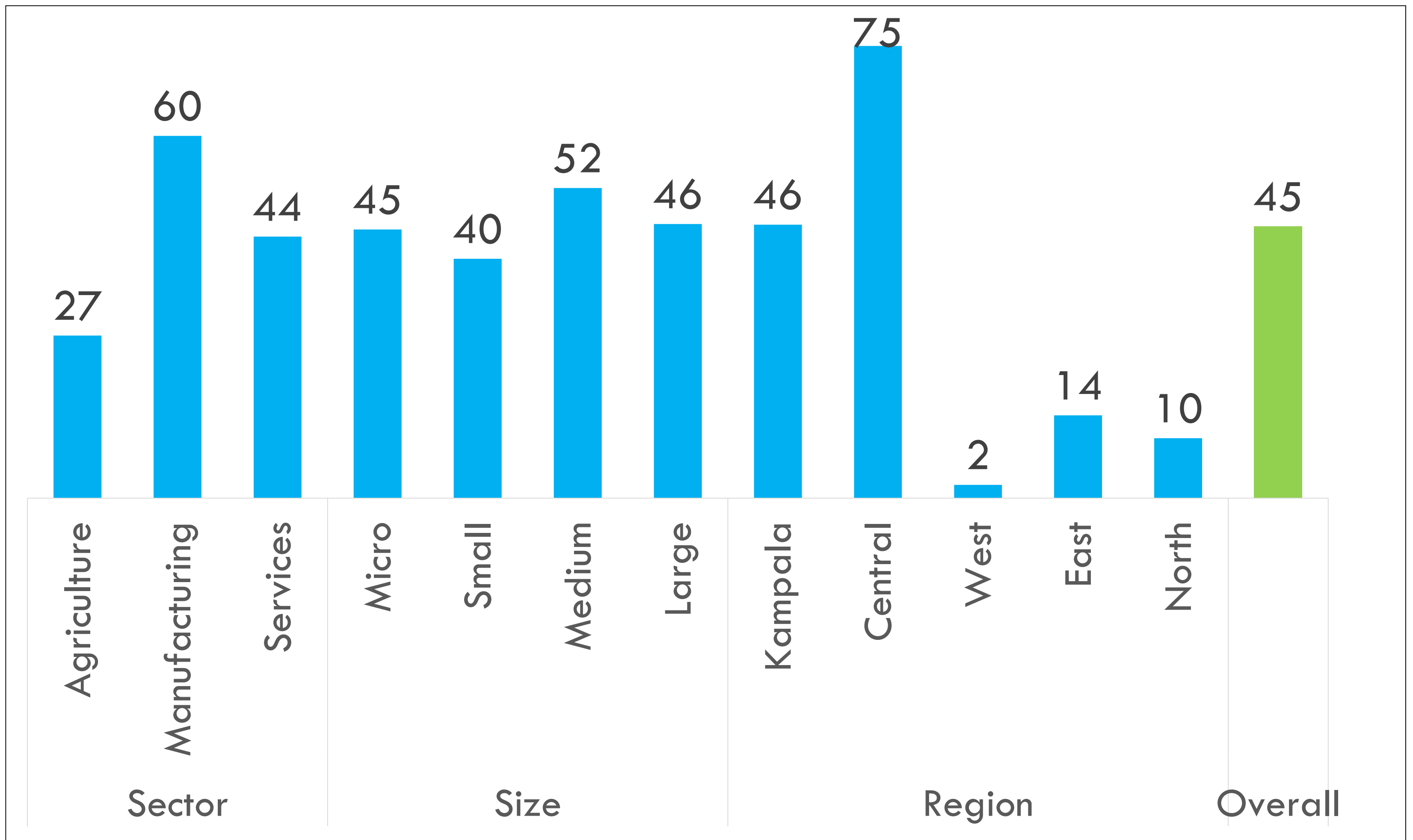
3. Policy options

1. Context

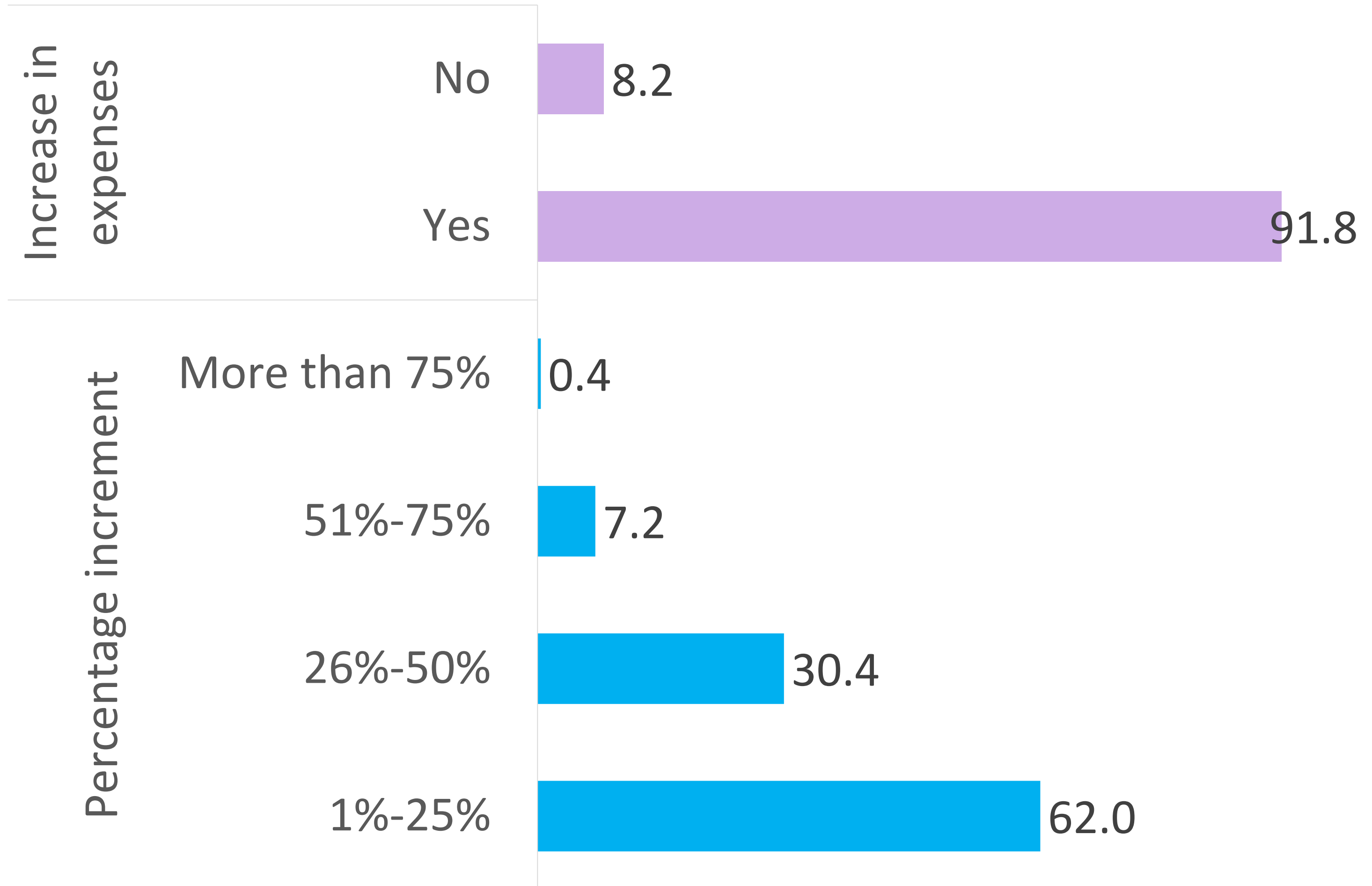
- Two pronged approach to contain impact of COVID-19
- Earlier on, adaptation of **containment measures**: sanitizer, closure of school, lockdown etc
- Later on, adaptation of **policy responses**
- Measure have been largely short-term. While **policy responses** have been short, medium and long-term
- **Spread of virus** is increasing in the community, business have been hit hard
- Survey conducted in April 2020

2. Effects of measures

Agriculture, small businesses and businesses in Western Uganda hardest hit



Expenditure (% increase)



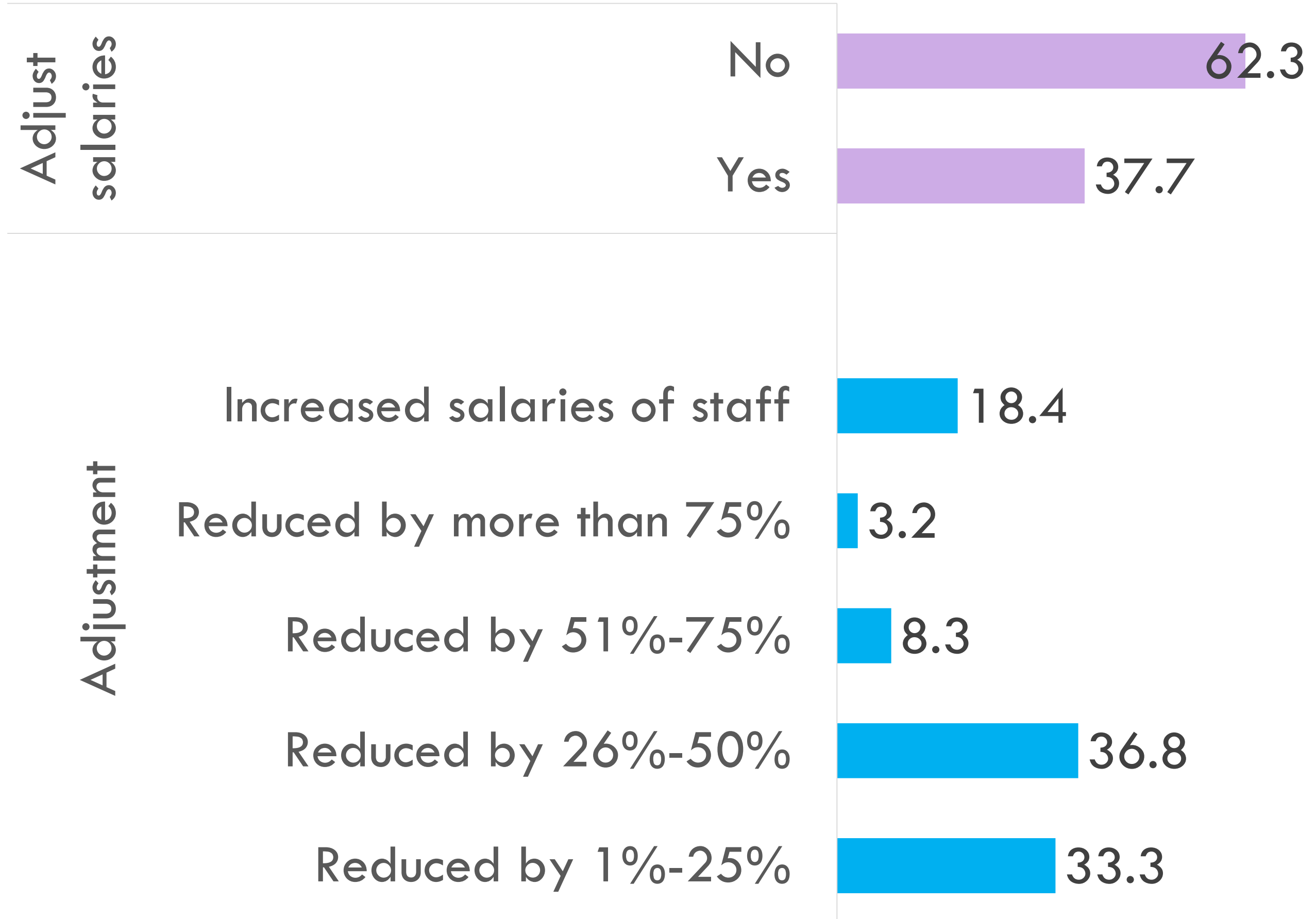
Millions to lose jobs if measures persist

Table 1: Forecast of the number of people to lose jobs if the situation was to last for six months

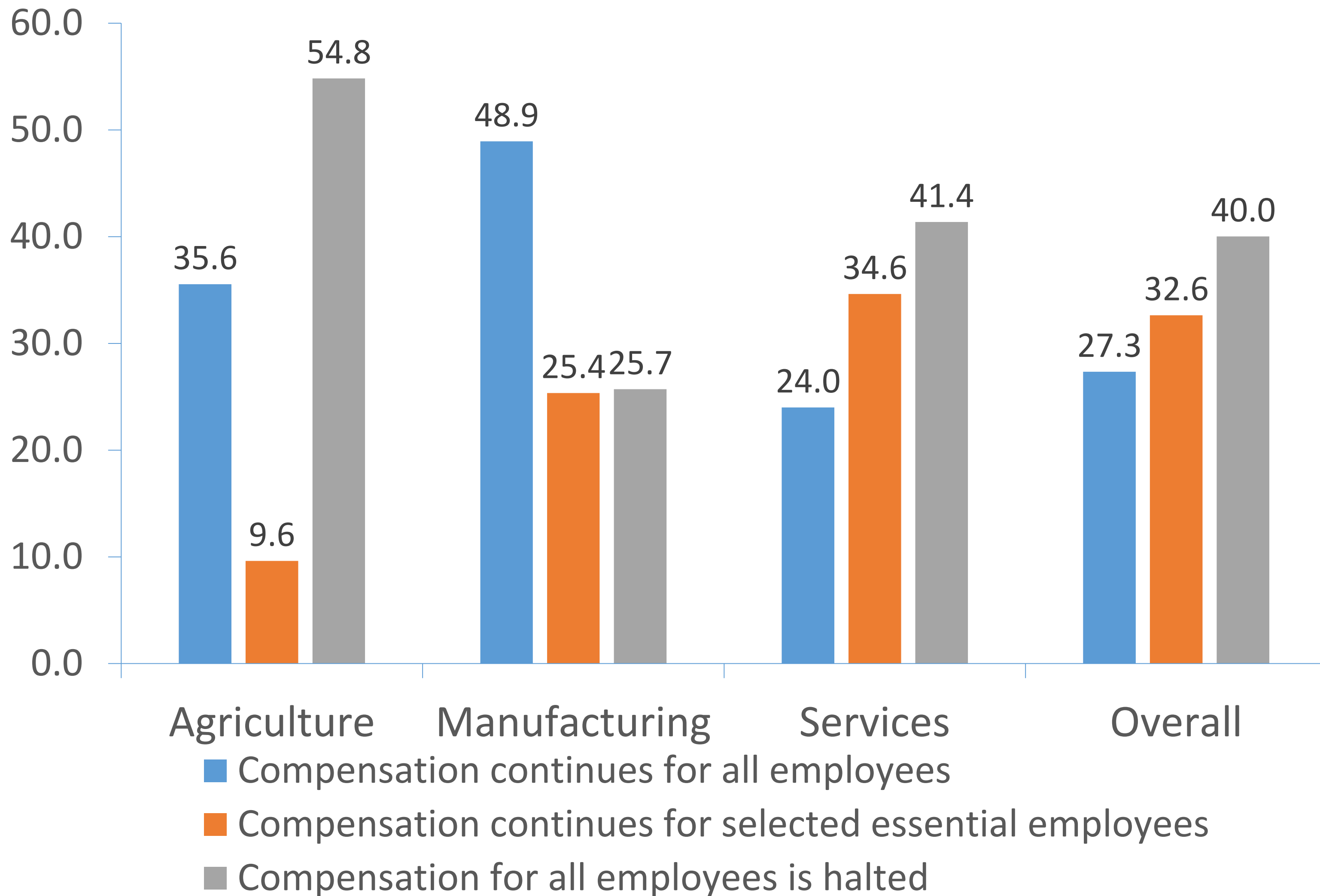
	Temporarily	Permanently
Overall	3,800,275	625,957
Sector		
Agriculture	123,610	
Manufacturing	788,693	150,316
Services	2,887,972	475,641
Size		
Micro	66,127	
Small	697,045	80,779
Medium	883,156	213,779
Large	2,153,948	331,399

Author's own construct using survey data, 2020

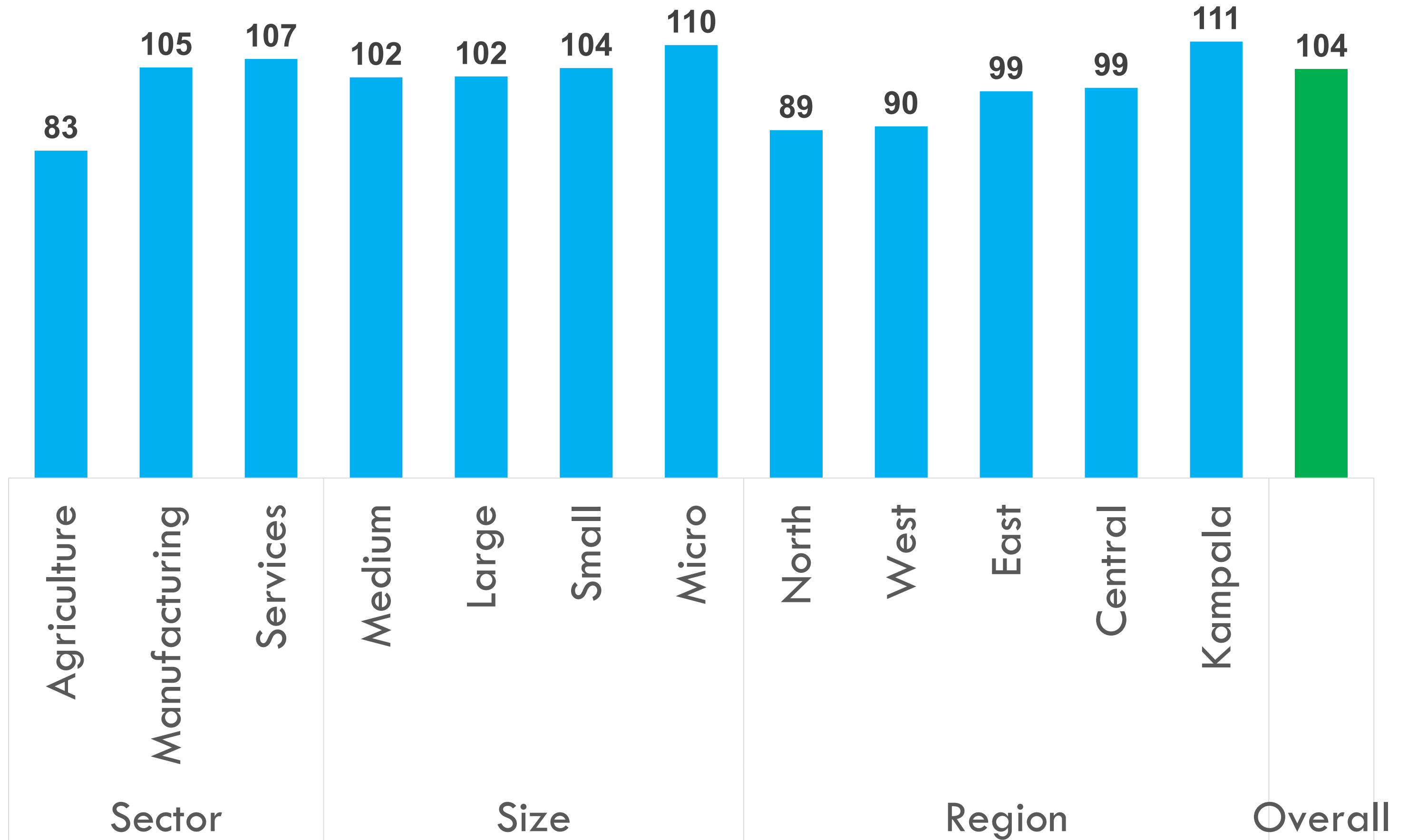
Salary cuts across board



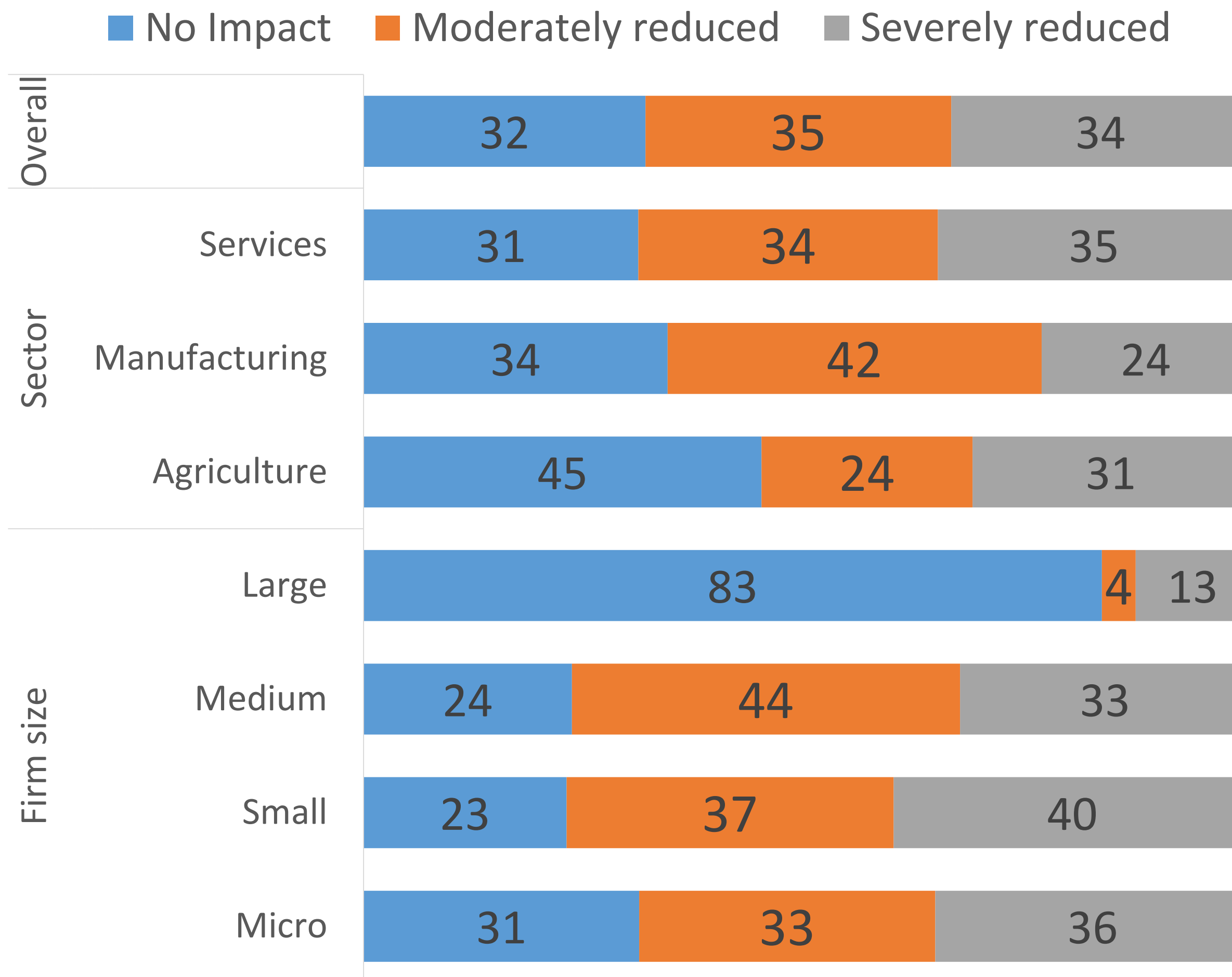
Suspension of salaries in 40% of firms



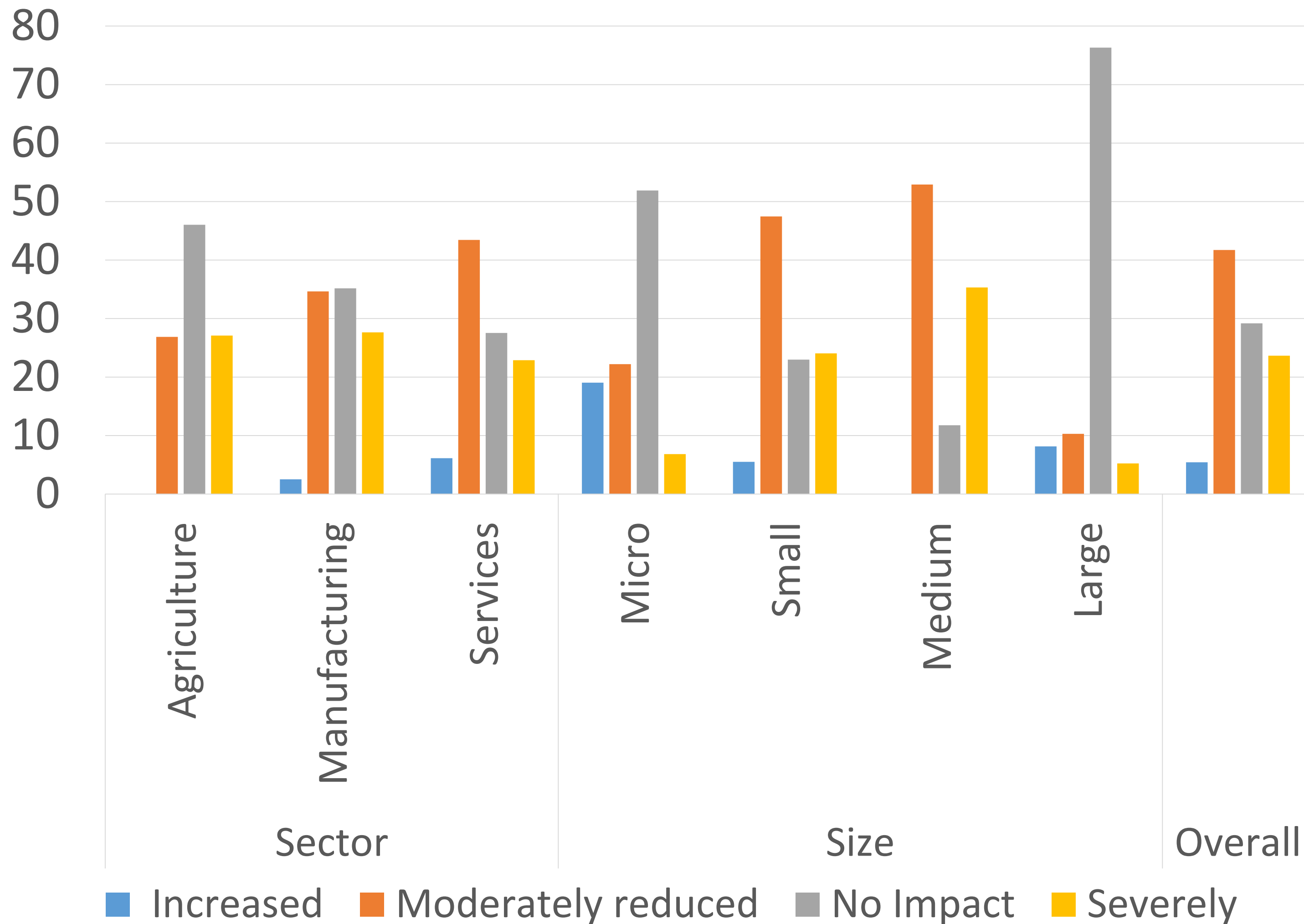
Index of Change in price of output



Change in access to credit (% firms)



Ability to pay outstanding debts (% of firms)



3. Policy options

Practical policy options

	Policy proposal	Firm size	Line/sector	Challenges
1	Safety nets (food distribution)	Micro/Small	Agriculture/Services	Effectiveness and efficiency of the food distribution system
2	Public equity	Medium and Large	Services/Education	Who benefits/Inclusivity/ Fiscal gap
3	Bailout(s)	Small, Medium and Large	All sectors	Who benefits/Inclusivity/ Fiscal gap
4	Initial Public Offer (IPOs)	Small, Medium and Large	All sectors	Governance/ Transparency

Practical policy options

	Policy proposal	Firm size	Line/sector	Challenges
5	Database of households and firms	Small, Medium and Large	All sectors	Informality/ Coordination/Duplication of efforts
6	Multi-sectoral approach	Necessary conditions		Working in silos/Lack of synergies/Lack of coordination
7	Reducing inequality			Lack of inclusivity in policy design
8	Trust			Accountability

Thank You!